

# Laws & Regulations on Setting Up Business in Japan



## Preface

The Japan External Trade Organization (JETRO) has long provided various resources for foreign businesses interested in setting up operations in Japan in order to promote FDI.

"Laws & Regulations on Setting Up Business in Japan" is a JETRO booklet designed with the foreign business in mind, providing information on laws, regulations and procedures on registration of incorporation, visas, taxes, human resource management, and trademark and design protection systems. First published in October 2004, the 11th edition has now been revised to incorporate changes in these areas since then.

It is our hope that this publication will serve as an excellent resource for companies planning to establish operations in Japan and will make doing business in Japan easy.

Interested investors are also encouraged to visit our website at <http://www.investjapan.org>, which provides not only the same information as this booklet but also updates on amendments and other changes to investment-related systems and institutions.

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Invest Japan Department

Japan External Trade Organization (JETRO)

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## SECTION 1 Incorporating Your Business

### 1.1 Types of operation in Japan

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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 >

	Branch office	Subsidiary company	
		Kabushiki-Kaisha (joint-stock corporation)	Godo-Kaisha (limited liability company (LLC))
Capital	No capital	1 yen or more* <sup>1</sup>	1 yen or more* <sup>1</sup>
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* <sup>2</sup>	See Tables 1-2, 1-3	No legally stipulated minimum. In principle, all members are executive officers, but may be stipulated otherwise in articles of association* <sup>2</sup>
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* <sup>3</sup>	--- (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, prior notification must be filed with the Bank of Japan if establishing an operation in an industry in which the Foreign Exchange and Foreign Trade Act requires that such notification be filed when making an inward direct investment.

\*<sup>1</sup> 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.

\*<sup>2</sup> 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 member (a person performing duties of such member, if such representative is a corporation) of a Godo-Kaisha on and after March 16, 2015.

\*<sup>3</sup> See 1.7.1 "Closure of a branch office and resignation of all representatives in Japan".

## SECTION 1 Incorporating Your Business

### Comparison regarding directors of Kabushiki-Kaisha (joint-stock corporations) (if no nominating committee, etc. or committee of audit, etc. <sup>\*1</sup> is established)

< Table 1-2 >

		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 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 issued shares)	Kokai Kaisha (publicly traded joint-stock corporations that are not Kabushiki Joto Seigen Kaisha)
Directors	No.	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	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
Auditors	No.	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
	Term	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
Accounting auditor	Appointment	Appointment possible		Appointment necessary	
	Term	1 year			
Accounting counselor*4	Appointment	Appointment possible. However, 1 or more must be appointed if a board of directors is established and no auditor is appointed	Appointment possible		
	Term	2 years in principle. Extendable up to 10 years	2 years	2 years in principle. Extendable up to 10 years	2 years

<sup>\*1</sup> 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.

<sup>\*2</sup> 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.

<sup>\*3</sup> If a company subject to the Financial Instruments and Exchange Act has not appointed an outside director by the last day of every business year, it must explain the reason why appointing an outside director would not be appropriate at its annual shareholders meeting.

<sup>\*4</sup> 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)  
(if a nominating committee, etc. are established \*<sup>1</sup>)**

< Table 1-3 >

		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 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 issued shares)	Kokai Kaisha (publicly traded joint-stock corporations that are not Kabushiki Joto Seigen Kaisha)
Directors	No.	Appointment of 3 or more required			
	Term	1 year			
Board of directors (3 or more directors)		Establishment required			
Representative director		Appointment not possible			
Executive	No.	Appointment of 1 or more required. Appointment of representative executive officer if 2 or more * <sup>2</sup>			
	Term	1 year			
Auditors		Appointment not possible			
Board of auditors (3 or more auditors)		Appointment not possible			
Accounting auditor	Appointment	Required			
	Term	1 year			
Accounting councilor	Appointment	Possible			
	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* <sup>3</sup>			
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* <sup>3</sup>			
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* <sup>3</sup>			

\*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.

## SECTION 1 Incorporating Your Business

### Comparison regarding directors of joint-stock corporations (if an audit and supervisory committee<sup>\*1</sup> is established)

< Table 1-4 >

		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 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 issued shares)	Kokai Kaisha (publicly traded joint-stock corporations that are not Kabushiki Joto Seigen Kaisha)
Directors (members of comm. of auditors, etc.)	No.	Appointment of 3 or more required * <sup>2</sup>			
	Term	2 year			
Directors (excl. members of comm. of auditors, etc.)	No.	Appointment of 1 or more required.			
	Term	1 year			
Board of directors		Establishment required			
Representative director		Appointment required* <sup>3</sup>			
Auditors		Appointment not possible			
Board of auditors		Appointment not possible			
Accounting auditor	Appointment	Required			
	Term	1 year			
Accounting councilor	Appointment	Possible			
	Term	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* <sup>2</sup>			

\*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 with 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. It is often convenient to use an "affidavit" on information for registration certified by that country's embassy/consulate in Japan<sup>\*1</sup>. Document(s) actually required will be determined individually for each company.

#### General flow of procedures for establishing a branch office



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

<sup>\*1</sup> If your embassy does not provide notary services, certification by a public notary in your home country is required.

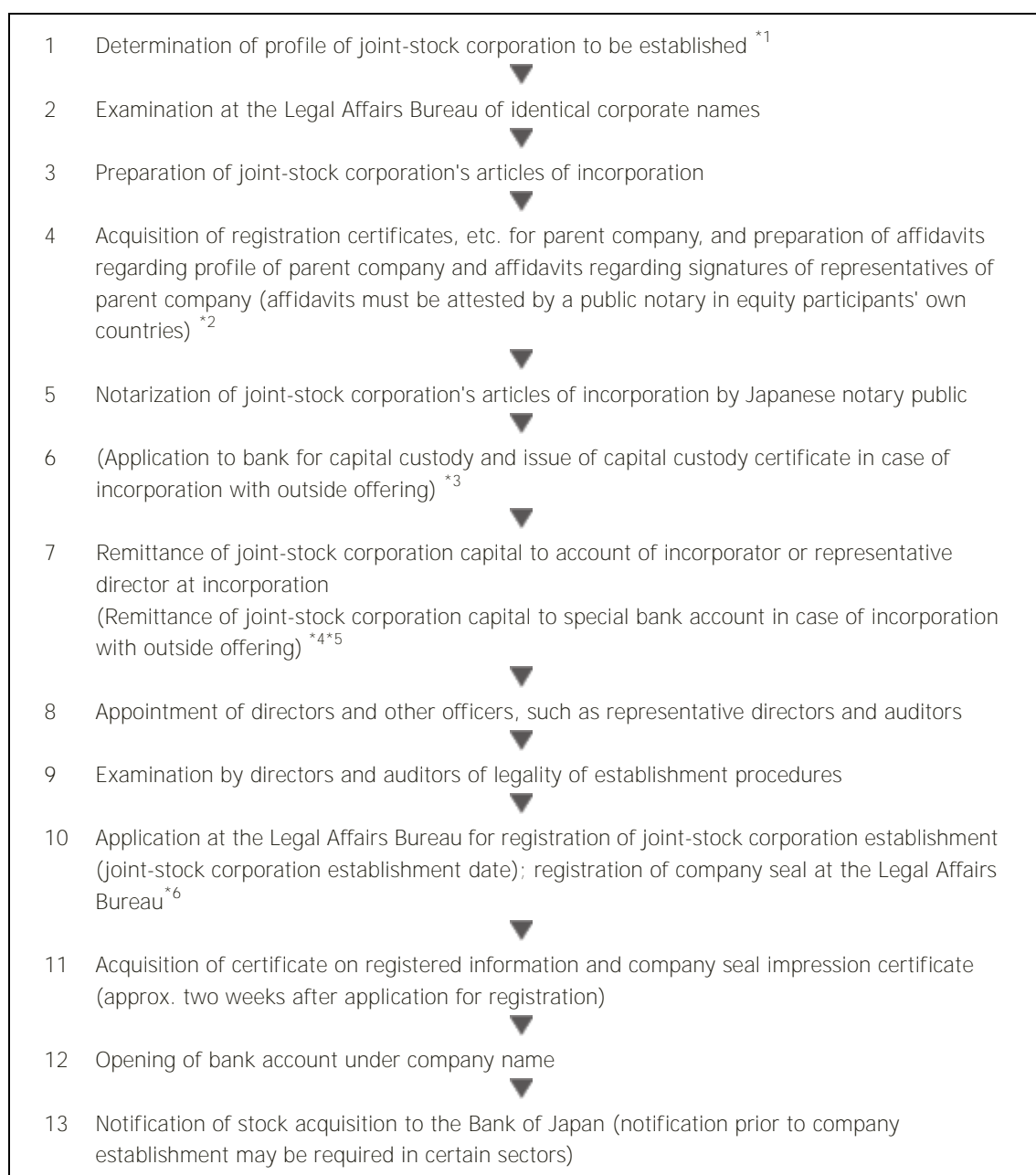
## **SECTION 1   Incorporating Your Business**

### **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 in Japan 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)



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

<sup>\*1</sup> 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.

<sup>\*2</sup> 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 *Boshū Setsuritsu*), affidavits regarding the parent company may not be required. Note, however, 6.

<sup>\*3</sup> In *Boshū 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.

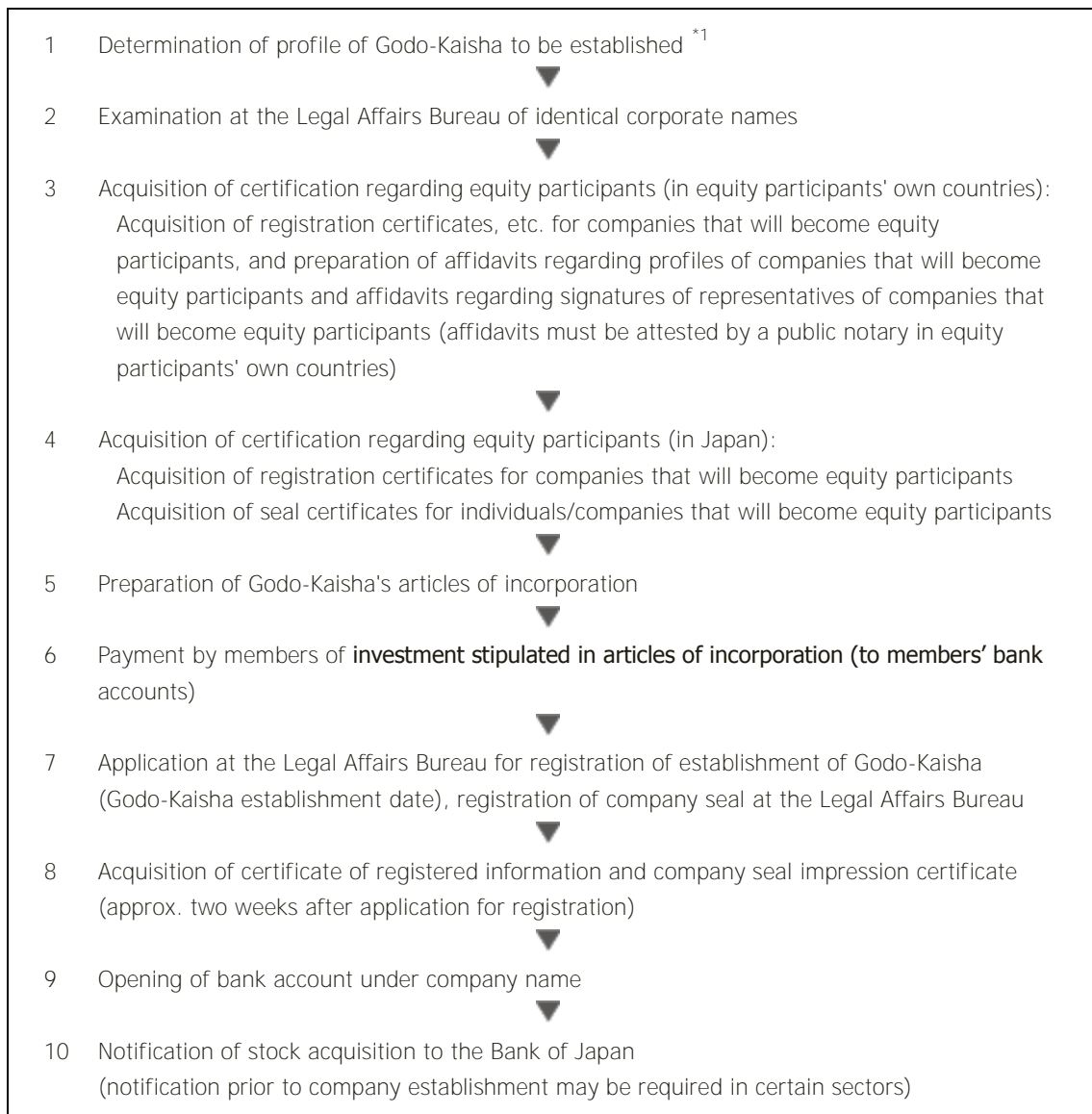
<sup>\*4</sup> If a joint-stock corporation is incorporated with the joint equity participation by an individual or corporation with a bank account in Japan ("incorporation without outside offering", or *Hokki Setsuritsu*. This method includes the incorporation by an independent promoter), it may not be necessary to apply to a bank for capital custody and issuance of a capital custody certificate. In this case, it is sufficient for the capital to be paid into the joint equity participant's bank account in Japan, and for documentary evidence to be submitted by the representative director of the joint-stock corporation in place of a bank-issued capital custody certificate in order to certify that payment of the full amount of capital has been received.

<sup>\*5</sup> In the case of incorporation without outside offering, special bank accounts and capital custody certificates are in practice rarely used. This is due to several reasons, including the high level of bank fees, and the fact that banks often do not allow special accounts to be opened if there are no previous dealings with them.

<sup>\*6</sup> 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.

## SECTION 1 Incorporating Your Business

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



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

<sup>\*1</sup> 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 (representative members in the case of a corporation).

## **1.4 Information listed in articles of incorporation of a company**

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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

## SECTION 1 Incorporating Your Business

### 1.5 Certificate on registered company information and company seal impression certificate

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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 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, telephone lines, 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

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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) at a business establishment.
- ▶ Employment regulations  
Any business ordinarily employing 10 or more workers must draw up and submit a copy of its employment regulations without delay.  
**Note: "Employees" here also includes representatives of corporations, such as representative directors.**

## **SECTION 1   Incorporating Your Business**

### **1.6.4   Public employment security authorities**

#### **(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 (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.

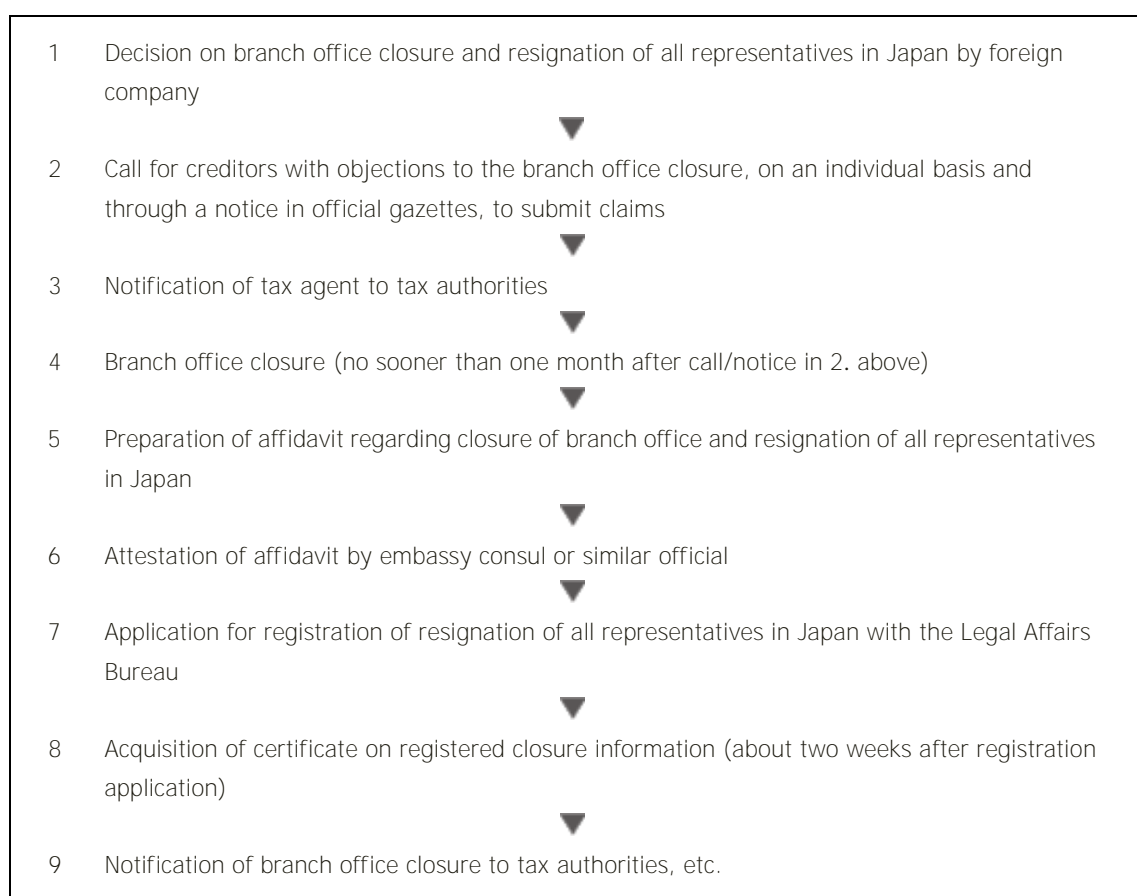


## 1.7 Closure of branch offices or subsidiary companies

### 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



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 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.

## SECTION 1 Incorporating Your Business

### 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 objections to the liquidation of 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))**

- 
- ```
graph TD; 1[1 Resolution at the general meeting of shareholders or equivalent on the dissolution of the subsidiary company and the appointment of a liquidator] --> 2[2 Application to the Legal Affairs Bureau for registration of the dissolution of the subsidiary company and the appointment of a liquidator]; 2 --> 3[3 Notification to tax authorities of the dissolution of the subsidiary company and the appointment of a liquidator]; 3 --> 4[4 Call for creditors with objections to liquidation of the subsidiary company, on an individual basis and through notices in official gazettes, to submit claims]; 4 --> 5[5 Preparation of a balance sheet and inventory of property at dissolution]; 5 --> 6[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)]; 6 --> 7[7 Ascertainment and distribution of residual assets]; 7 --> 8[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)]; 8 --> 9[9 Application for registration of the completion of liquidation of the subsidiary company with the Legal Affairs Bureau]; 9 --> 10[10 Acquisition of certificate on registered closure information (approx. two weeks after application for registration)]; 10 --> 11[11 Notification of completion of liquidation of the subsidiary company to tax authorities, etc.];
```
- 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 objections to liquidation of 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. 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 be asked to prepare various documents on a client's behalf (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.). 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.

### 2. 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 Law, Securities Exchange Law and other laws).

A bank account opened by a representative office will ordinarily be registered jointly in the name of the office and an individual representative, as in "(name of representative), Japan Representative Office, (name of company)". The documentation generally required for a representative office to open a bank account is as follows:

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

## **SECTION 2 Visas and Status of Residence**

### **2.1 Entry procedures**

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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 from, an immigration officer at the port of entry, who will decide on the foreign national's status of residence and period of stay (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 visa or to entry by foreign nationals having re-entry permission).

### **2.2 Relation between visa and status of residence**

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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 is a recommendation required for entry into Japan received in advance from a Japanese diplomatic mission abroad that certifies that the passport is a valid passport 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).

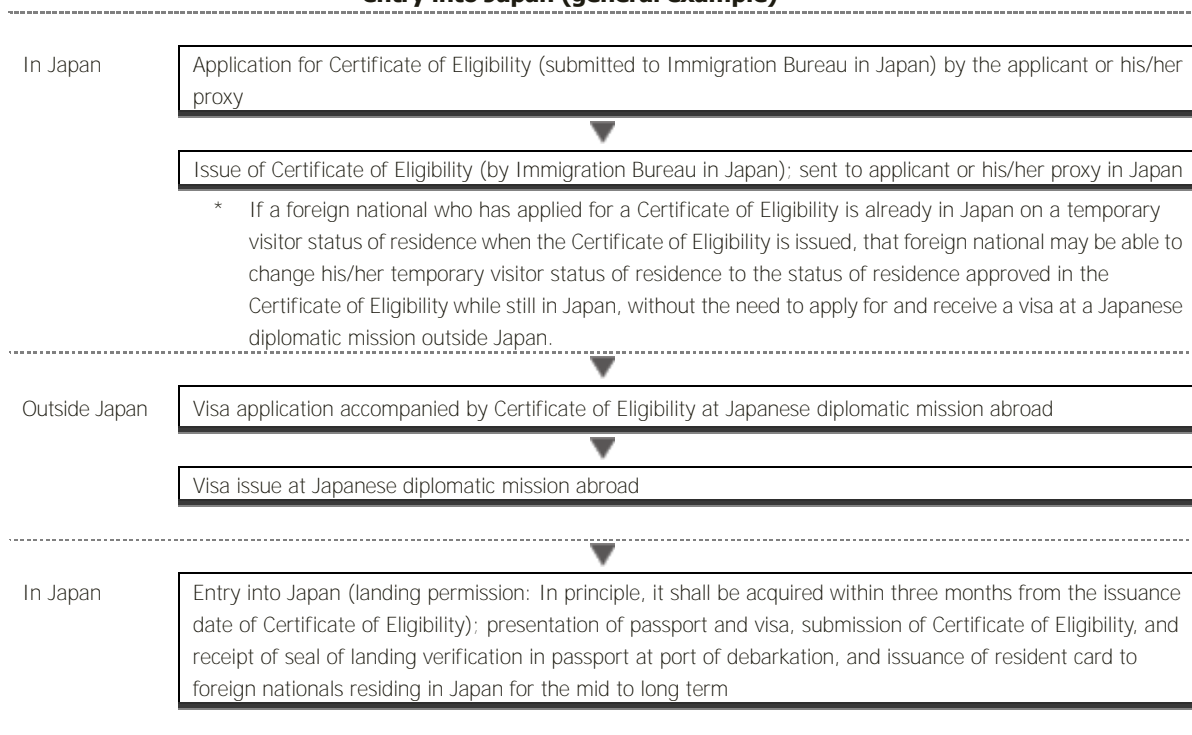
#### **2.2.2 Status of residence**

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.

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

Visas are applied for and received at Japanese diplomatic missions abroad. However, Japanese diplomatic missions abroad may be unfamiliar with circumstances in Japan, leading to delays and other difficulties in screening applications for long-term stay visas such as those for foreign nationals seeking to work in Japan. In light of this, the Immigration Bureau in Japan often screens these applications 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 visa being sought; if it is determined that these activities do in fact meet the visa conditions, a Certificate of Eligibility is issued. If this Certificate of Eligibility is presented to a Japanese diplomatic mission abroad together with a visa application, the conditions for entry/residence will ordinarily be deemed satisfied and a visa promptly issued. 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)



(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 resident card. At other ports of entry/departure, a seal of landing verification will be stamped in the passport and a resident 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 resident card will be mailed by the Regional Immigration Bureau to the reported place of residence). A resident card will be issued to mid-to a long-term residents when granted permission pertaining to residence, such as landing permission, permission for change of resident status and permission for extension of the period of stay (see 2.7).

## SECTION 2 Visas and Status of Residence

### 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 Bureau, Ministry of Justice "Immigration control IMMIGRATION 2015"](#)  
(2.Equitable immigration control for all persons, List of Status of Residence)

<Table 2-1>

|                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Business Manager                                             | Activities to manage trades and other business in Japan or get engaged in administration of the relevant business.                                                                                                                                                                                                                                                                                                                        |
| Engineer/Specialist in Humanities/<br>International Services | Activities to engage in services that require skills or knowledge pertinent to physical science, engineering or other natural science fields, or jurisprudence, economics, sociology or other human science fields or activities to engage in services that require specific ways of thought or sensitivity based on experience with foreign culture, on the basis of a contract with a public or private organization in Japan.          |
| Intra-company Transferee                                     | Activities on the part of personnel who are transferred to business offices in Japan for a limited period of time from business offices that are established in foreign countries by public or private organizations which have head offices, branch offices or other business offices in Japan and who engage at the business offices in the activities described under "Engineer" or "Specialist in Humanities/International Services." |
| Legal/Accounting Services                                    | Activities to engage in the legal or accounting business. An applicant must be a foreign attorney, a foreign certified public accountant or those with some other legal qualifications.                                                                                                                                                                                                                                                   |
| Skilled Labor                                                | Activities to engage in services that require industrial techniques or skills belonging to special fields, on the basis of 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)
- (3) Return-mail envelope (with 392 yen postage affixed)
- (4) Document certifying academic qualifications (may not be necessary in some cases)
- (5) Curriculum vitae (may not be necessary in some cases)
- (6) Certified copy of the company register of an inviter in Japan
- (7) Company brochure of an inviter in Japan
- (8) Copy of financial statements or business plan of an inviter in Japan
- (9) Copy of information returns for total table or copy of notification on the establishment of an inviter in Japan such as salary-paying office

In addition to the above, submission of a copy of an employment agreement, certificate of employment, foreign company's business brochure, business license, and similar documents will be required depending on the type of status of residence.

### 2.4.3 Documentation needed when applying for a working visa

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

- (1) Application for visa
- (2) Passport
- (3) Certificate of Eligibility and copy thereof
- (4) Full-face photograph (1-2 photos, 4.5 cm in height x 4.5 cm in width)

### 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, however, companies do so by establishing a representative office, branch, or subsidiary company. The relationship between each of these types of operation and the status of residence of their representatives is determined by the conditions and criteria for each status, but the following is generally likely to be applicable:

Representative of representative office ---- "Intra-company Transferee"  
Representative of branch ----- "Intra-company Transferee" or "Business Manager"  
Representative of subsidiary company ----- "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 other statuses matching each employee's academic/work record and the nature of his/her work in Japan ("Engineer/Specialist in Humanities/International Services", etc.).

### 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: "Class 1 (b) Highly Skilled Professional", 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.

## SECTION 2 Visas and Status of Residence

### 2.5 Temporary visitor visa and status

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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 short courses 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 are 90 days, 30 days, and designated numbers of days up to 15 days.

### 2.6 Reciprocal visa exemptions for temporary visitor

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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 will naturally not apply to foreign nationals intending to work or engage in other activities for compensation.

- List of countries that have visa exemption arrangements with Japan  
Ministry of Foreign Affairs of Japan website: [http://www.mofa.go.jp/j\\_info/visit/visa/short/novisa.html](http://www.mofa.go.jp/j_info/visit/visa/short/novisa.html)



## 2.7 Resident card and residency management system

Under the residency management system for foreign nationals in Japan, **“resident cards” are issued to foreign nationals**. For details of the residency management system and resident card, please see the following website:

- Immigration Bureau of Japan website:  
[http://www.immi-moj.go.jp/newimmiact\\_1/pdf/language/007.pdf](http://www.immi-moj.go.jp/newimmiact_1/pdf/language/007.pdf)

### 2.7.1 What are resident cards?

Resident cards are cards 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 resident 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 bearers’ 16th birthdays**), the resident 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 resident cards?

Resident cards are 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 resident cards

The following information is included on resident cards:

- (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 resident card
- (6) Working restrictions (if any)
- (7) Details of 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 resident cards

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

<Table 2-2>

| Age         | Permanent residents        | Non-permanent residents                                       |
|-------------|----------------------------|---------------------------------------------------------------|
| 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 |

## SECTION 2 Visas and Status of Residence

### 2.7.5 Notification requirements regarding resident cards

Mid- to long-term residents are required to notify the authorities in the event of any change in the details entered in the resident card and certain other matters during the period of stay. These notifications regarding resident cards 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 resident card (or passport if a resident 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 resident 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 a regional immigration bureau)

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

1) Notification of change of name, date of birth, sex, nationality/region

Notification must be filed within 14 days of the change of name, date of birth, sex, or nationality/region.

2) Application to update period of validity of resident card

A permanent resident or a foreign resident of Japan younger than 16 years old whose resident card expires on his/her 16th birthday is required to apply to renew the period of validity of the resident card before it expires.

3) Application for re-issuance of resident card

In case of loss or theft of a resident 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 a regional immigration bureau 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 a regional immigration bureau, 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:

- An employee of a host institution or charitable corporation approved by the director of a regional immigration bureau
- An attorney or an administrative scrivener (gyoseishoshi lawyer) who files a notification regarding documents submission with the director of a regional immigration bureau by way of the bar association or administrative scrivener association to 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 a regional immigration bureau may also complete procedures related to notifications and applications on behalf of the individual.

## 2.7.6 Notifications required by the residency management system

Notification concerning organization to which foreign resident belongs (submitted to a regional immigration bureau)

- 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” 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 is required to file notification of such fact within 14 days by any of the following: visiting a regional immigration bureau (bringing his/her resident card with him/her), posting notification to the Tokyo Regional Immigration Bureau (enclosing a photocopy of his/her resident card), or submitting notification online using the “Immigration Bureau’s Electronic Notification System” at

<https://www.ens-immi.moj.go.jp/NA01/NAA01SAction.do.jsessionid=005DB75B6B8F1A2DCBD375A4D6E3F4AS02?hdnGng=L2>.

- 2) Notification regarding spouse

A mid- to long-term foreign resident who is married, has resident status of “Dependent” or similar, and loses his/her spouse by death or divorce is required to file notification of this fact within 14 days by visiting a regional immigration bureau (bringing his/her resident card with him/her), posting notification to the Tokyo Regional Immigration Bureau (enclosing a photocopy of his/her resident card), or submitting notification online using the “Immigration Bureau’s Electronic Notification System” at

<https://www.ens-immi.moj.go.jp/NA01/NAA01SAction.do.jsessionid=005DB75B6B8F1A2DCBD375A4D6E3F4AS02?hdnGng=L2>.

## SECTION 2 Visas and Status of Residence

### 2.8 Re-entry permission

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#### 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.

#### 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 multiple re-entry permit, 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 exceeding the permitted period of stay in Japan. In addition, persons staying in Japan on a temporary visitor 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 (or branch office thereof) having jurisdiction for the location in which he/she resides 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. The applicant also need not appear personally at the Immigration Bureau if applying through an application agent who has been authorized by the Immigration Bureau or has registered with the Immigration Bureau as an application agent.

#### 2.8.4 Necessary documentation, fees, etc.

- Application for re-entry permission
- Passport (re-entry permit will be delivered into the passport)
- Resident card (or alien registration certificate deemed equivalent to a resident card)
- Payment of fees through the purchase of revenue stamps
  - 3,000 yen for single 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 resident 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 resident card is to be issued later".

## **2.9 Family members accompanying working foreign nationals**

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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**

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### **2.10.1 Extension of period of stay**

The period of stay is decided 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 an extension of this period of stay no later than the last day of that period of stay. Extensions will not be granted if the purpose of the stay has already been completed or there are other problems connected with the status of residence.

Applications for extensions of periods of stay may be submitted from around three months before the expiration date of the period of stay if the period of stay is at least six months. If a foreign national applies for an extension before his/her period of stay expires (excluding where made by a foreign national granted permission to stay for 30 days or less) and no decision has been made on the application by the expiration date, he/she may remain in Japan under the same status of residence until the date on which a decision is made on the application or two months have elapsed from the original expiration date, whichever is the shorter period.

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

- ▶ [Immigration Bureau, Ministry of Justice "Immigration control IMMIGRATION 2015"](#)

### **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 "Investor/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.

If a foreign national has applied for a change in status of residence (excluding applications made by persons granted a period of stay of not more than 30 days) and no decision has been made on the application by the expiration date of the period of stay granted in respect of the applicant's status of residence, the applicant may remain in Japan under the same status of residence until the date on which a decision is made on the application or two months have elapsed from the original expiration date, whichever is the shorter period.

## SECTION 2 Visas and Status of Residence

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

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

It is the preferential immigration treatment 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 "Class 1 Highly Skilled Professional" 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 Class 1 Highly Skilled Professional, Class 2 Highly Skilled Professional and further preferential treatment are provided.

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

- ▶ Immigration Bureau of Japan website : [http://www.immi-moj.go.jp/newimmiact\\_3/en/index.html](http://www.immi-moj.go.jp/newimmiact_3/en/index.html)

#### 2.11.2 Point evaluation

As requested by applicants, the activities of highly skilled foreign nationals are classified into the following categories. 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: "Class 1(a) Highly Skilled Professional"
- (2) Advanced specialized/technical activities: "Class 1 (b) Highly Skilled Professional"
- (3) Advanced business management activities: "Class 1 (c) Highly Skilled Professional"

#### 2.11.3 Relaxations of requirements for certification as a highly skilled foreign professionals

In order to promote acceptance of highly skilled foreign professionals, there have been the following relaxations of requirements for certification:

- Annual income
  - (1) Abolishment of the minimum annual income criterion for Advanced academic research activities: Class 1(a) Highly Skilled Professional
  - (2) Abolishment of the minimum annual income criteria by age group for Advanced specialized/technical activities and Advanced business management activities, and introduction of a common minimum annual income criterion for all age groups, which is now reduced to 3 million yen
  - (3) If a foreign national is transferred from an overseas office, the income received from the office can be included in his/her annual income when calculating annual income points
- Education and Japanese language skills
  - (1) Additional points given to certain higher degrees (such as Master of Business Administration) on top of the points for an academic degree
  - (2) Rise in the points given to a degree obtained at a higher educational institution in Japan from 5 to 10
  - (3) Rise in the points given to Japanese language proficiency from 10 to 15

#### 2.11.4 Preferential treatment

In case of "Class 1 Highly Skilled Professional":

- (1) Permission to engage in multiple types of activity during stay in Japan
- (2) Granting of 5-year period of stay
- (3) Relaxation of residence requirements for granting of permission for permanent residence (eligibility for permanent residence in around 5 years)
- (4) Preferential processing of immigration and residency procedures
- (5) Permission for spouse of highly skilled foreign professional to work
- (6) Permission for accompaniment by parent of highly skilled professional under certain conditions
- (7) Permission for accompaniment by domestic worker employed by highly skilled person under certain conditions

In case of "Class 2 Highly Skilled Professional":

- (1) Permission for almost all types of working status activities in addition to the activities as "Class 1 Highly Skilled Professional"
- (2) Granting of open-ended period of stay

Granting of the preferential treatments indicated in (3) - (7) above

## 2.12 Promoting acceptance of foreign entrepreneurs

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Promoting to increase foreign entrepreneurs in the national strategic special zones

The Tokyo Metropolitan Government, Fukuoka city and Niigata city, etc. have started accepting applications for the "Program to increase foreign entrepreneurs" 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 the "Program to increase foreign entrepreneurs", foreign nationals intending to start a business in above mentioned autonomous bodies 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 Metropolitan Government: [http://www.seisakukikaku.metro.tokyo.jp/invest\\_tokyo/english/invest-tokyo/fhr.html](http://www.seisakukikaku.metro.tokyo.jp/invest_tokyo/english/invest-tokyo/fhr.html)
- ▶ Fukuoka city: [http://www.city.fukuoka.lg.jp/keizai/r-support/business/startupviza\\_english.html](http://www.city.fukuoka.lg.jp/keizai/r-support/business/startupviza_english.html)

### Reference

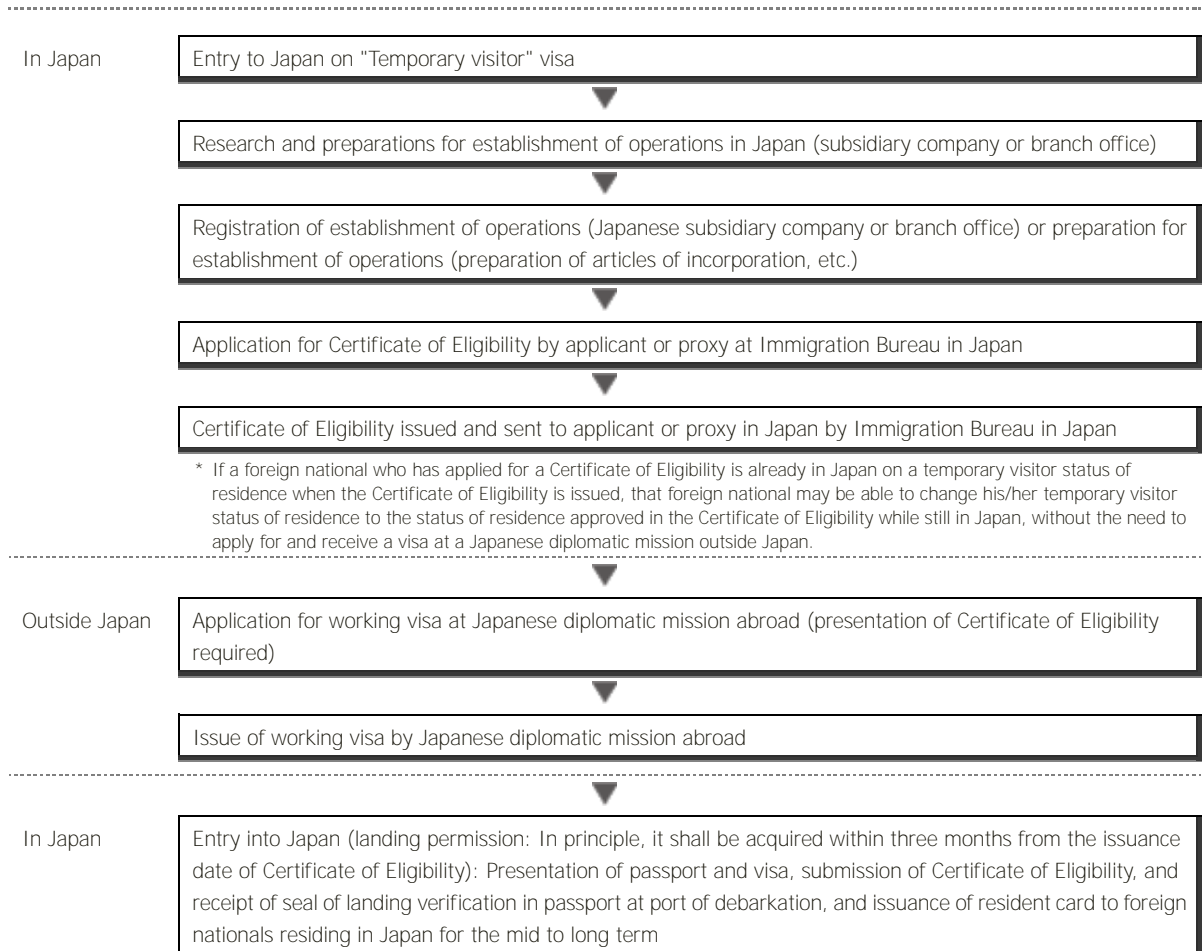
#### 1. Consultation with specialists for procedures

In Japan, administrative scriveners (gyoseishoshi lawyers) are among the specialists who can provide advice on the immigration procedures described above.

Administrative scriveners that have registered with the Immigration Bureau to serve as application agents are knowledgeable on immigration control procedures and can act as agents for the submission of applications to the Immigration Bureau for certificates of eligibility, extensions of period of stay, changes of status of residence, and re-entry permissions, etc. (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 Immigration Bureau 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 resident card. At other ports of entry/departure, a seal of landing verification will be stamped in the passport and a resident 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 resident card will be mailed by the Regional Immigration Bureau to the reported place of residence)



## **3.1 Overview of Japanese corporate tax system for investment in Japan**

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### **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. Under the new regulation applicable from the business year commencing on or after April 1, 2016, 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.

## SECTION 3 Taxes in Japan

### 3.2 Domestic-sourced income

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#### 3.2.1 Domestic-sourced income in the business year commencing by March 31, 2016

Below is the typical example of the domestic-sourced income that forms the basis to determine the tax treatment on foreign corporations. Please note that the specific scope of taxation differs by the mode of activity of a foreign corporation in Japan, as will be described later.

- (1) Business Income derived from business activities in Japan
- (2) Consideration for providing certain services rendered in Japan such as engineers
- (3) Rent of real estate and other properties in Japan
- (4) Proceeds from the transfer of real estate in Japan
- (5) Income derived from the management of assets in Japan
- (6) Interest on deposits and savings deposited to offices in Japan
- (7) Dividends received from domestic corporations
- (8) Interest on loans for business operations in Japan
- (9) License fees, royalties and usage fees for machinery and equipment received from business operation in Japan

#### 3.2.2 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. In addition, the concept of domestic-sourced income has drastically changed, and it has been determined that the income, which is attributable to Japanese branches and falls under 3.2.1 (1), (6), (7), (8) and (9) above, is included in the following (1), (2) and (6):

- (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)**

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#### **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, different rule will apply depending on the timing of the commencement of business year as described below.

<Establishment of Japanese branches, etc. of foreign corporation and tax notification (business year commencing by March 31, 2016)>

When a Japanese branch office etc is newly established in Japan (i.e., where (1-A) of 3.3.4 Table 3-5 business year commencing by March 31, 2016 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 business year commencing by March 31, 2016 applies) or when carrying out business activities through locations or parties meeting the conditions below instead of opening a branch office (i.e., where (1-B) of 3.3.4 Table 3-5 business year commencing by March 31, 2016 applies).

Cases where a foreign corporation carrying out activities without establishing a branch office is required to submit tax notification:

- (1) When construction, installation, assembly or other works, or control and supervision of such works extends for a period of more than one year.
- (2) When engaging in business through certain agents, as described below:
  - Parties having and frequently exercising the authority to conclude business agreements on behalf of that foreign corporation.
  - Parties storing assets on behalf of that foreign corporation in a volume/quantity corresponding to the ordinary requirements of customers and delivering those assets in response to customers' requests.
  - Parties who regularly carry out an important portion of the work required for order acquisition, consultation and other activities aimed at the conclusion of business agreements solely or primarily on behalf of a foreign corporation.

<Establishment of Japanese branches, etc. of foreign corporation and tax notification (business year commencing on or after April 1, 2016)>

When a Japanese branch office etc is newly established in Japan (i.e., where (1) of 3.3.4 Table 3-5 business year commencing on or after April 1, 2016 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 business year commencing on or after April 1, 2016 applies).

## SECTION 3 Taxes in Japan

### 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 local corporate tax (a national tax, although filings and payments are made to local governments along with those for 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 local corporate tax; the same applies below) determined, and the taxable income 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, 2017).

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)>

| Table 5-1 Effective tax rates (standard tax rates basis) (rounded to two decimal places)* |                                                  |                                           |                    |                                                                                                   |
|-------------------------------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------|--------------------|---------------------------------------------------------------------------------------------------|
| Start date<br>of a business year<br><br>Brackets                                          | Small and medium-sized enterprises <sup>*1</sup> |                                           |                    | Enterprises <sup>*3</sup><br>other than small<br>and<br>medium-sized<br>enterprises <sup>*1</sup> |
|                                                                                           | Taxable income                                   |                                           |                    |                                                                                                   |
|                                                                                           | Up to 4 million yen                              | Over 4 million yen<br>to 8 million yen    | Over 8 million yen |                                                                                                   |
| April 1, 2015 to March 31, 2016                                                           | 21.42%                                           | 23.20%                                    | 34.33%             | 32.11%                                                                                            |
| April 1, 2016 to March 31, 2017                                                           | 21.42%                                           | 23.20%                                    | 33.80%             | 29.97%                                                                                            |
| April 1, 2017 to March 31, 2018                                                           | (Reference rate <sup>*2</sup> )<br>25.99%        | (Reference rate <sup>*2</sup> )<br>27.57% | 33.80%             | 29.97%                                                                                            |
| On or after April 1, 2018                                                                 | (Reference rate <sup>*2</sup> )<br>25.99%        | (Reference rate <sup>*2</sup> )<br>27.57% | 33.59%             | 29.74%                                                                                            |

\* 1 Small and medium-sized enterprises meeting the 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.
- 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 As the extension of the special measures of reduced tax rates for small and medium-sized enterprises has not been announced, the rates are reference tax rates on the assumption that the special measures will be abolished on March 31, 2017.

\* 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, 2015 and March 31, 2016

(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%                              | 23.90%             |
| Local corporate tax         | 0.66%               | 0.66%                               | 1.05%              |
| Corporate Inhabitant taxes  |                     |                                     |                    |
| 1. Prefectural              | 0.48%               | 0.48%                               | 0.76%              |
| 2. Municipal                | 1.46%               | 1.46%                               | 2.32%              |
| Enterprise tax              | 3.40%               | 5.10%                               | 6.70%              |
| Special local corporate tax | 1.47%               | 2.20%                               | 2.89%              |
| Total tax rate              | 22.46%              | 24.90%                              | 37.63%             |

(Note) The rates for corporate inhabitant tax and enterprise tax are shown using Tokyo as an example.

(Sample calculation of tax where taxable income is 10 million yen : Total amount of tax is 2,647,200 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%<br>=600,000 yen    | 4,000,000 yen x 15%<br>=600,000 yen   | 2,000,000 yen x 23.90%<br>=478,000 yen | 1,678,000 yen |
| Local corporate tax         | 4,000,000 yen x 0.66%<br>= 26,400 yen  | 4,000,000 yen x 0.66%<br>= 26,400 yen | 2,000,000 yen x 1.05% =<br>21,000 yen  | 73,800 yen    |
| Corporate Inhabitant taxes  |                                        |                                       |                                        |               |
| 1. Prefectural              | 4,000,000 yen x 0.48%<br>=19,200 yen   | 4,000,000 yen x 0.48%<br>=19,200 yen  | 2,000,000 yen x 0.76% =<br>15,200 yen  | 53,600 yen    |
| 2. Municipal                | 4,000,000 yen x 1.46%<br>=58,400 yen   | 4,000,000 yen x 1.46%<br>=58,400 yen  | 2,000,000 yen x 2.32% =<br>46,400 yen  | 163,200 yen   |
| Enterprise tax              | 4,000,000 yen x 3.40%<br>= 136,000 yen | 4,000,000 yen x 5.10%<br>=204,000 yen | 2,000,000 yen x 6.70%<br>= 134,000 yen | 474,000 yen   |
| Special local corporate tax | 4,000,000 yen x 1.47%<br>= 58,800 yen  | 4,000,000 yen x 2.20%<br>=88,000 yen  | 2,000,000 yen x 2.89%<br>= 57,800 yen  | 204,600 yen   |

Business year commencing between April 1, 2016 and March 31, 2017  
(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%                              | 23.40%             |
| Local corporation tax       | 0.66%               | 0.66%                               | 1.03%              |
| Corporate inhabitant taxes  |                     |                                     |                    |
| 1. Prefectural              | 0.48%               | 0.48%                               | 0.75%              |
| 2. Municipal                | 1.46%               | 1.46%                               | 2.27%              |
| Enterprise tax              | 3.40%               | 5.10%                               | 6.70%              |
| Special local corporate tax | 1.47%               | 2.20%                               | 2.89%              |
| Total tax rate              | 22.46%              | 24.90%                              | 37.04%             |

Business year commencing between April 1, 2017 and March 31, 2018  
(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               | (Reference rate)<br>19.00% <sup>*1</sup> | (Reference rate)<br>19.00% <sup>*1</sup> | 23.40%             |
| Local corporation tax       | 1.96%                                    | 1.96%                                    | 2.41%              |
| Corporate inhabitant taxes  |                                          |                                          |                    |
| 1. Prefectural              | 0.19%                                    | 0.19%                                    | 0.23%              |
| 2. Municipal                | 1.14%                                    | 1.14%                                    | 1.40%              |
| Enterprise tax              | 5.00%                                    | 7.30%                                    | 9.60%              |
| Special local corporate tax | abolished                                | abolished                                | abolished          |
| Total tax rate              | (Reference rate)<br>27.29% <sup>*1</sup> | (Reference rate)<br>29.59% <sup>*1</sup> | 37.05%             |

\* 1 As the extension of the special measures of reduced tax rates for small and medium-sized enterprises has not been announced, the rates are reference tax rates on the assumption that the special measures will be abolished on March 31, 2017.

<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 | ---                        | --- | Or under 50     | 1,210,000 yen   |
| Over 1,000,000,000 yen | Or under 5,000,000,000 yen | --- | Over 50         | 2,290,000 yen   |
| Over 1,000,000,000 yen | Or under 5,000,000,000 yen | --- | Or under 50     | 950,000 yen     |
| Over 100,000,000 yen   | Or under 1,000,000,000 yen | --- | Over 50         | 530,000 yen     |
| Over 100,000,000 yen   | Or under 1,000,000,000 yen | --- | Or under 50     | 290,000 yen     |
| Over 10,000,000 yen    | Or under 100,000,000 yen   | --- | Over 50         | 200,000 yen     |
| Over 10,000,000 yen    | Or under 100,000,000 yen   | --- | Or under 50     | 180,000 yen     |
| ---                    | Or under 10,000,000 yen    | --- | Over 50         | 140,000 yen     |
| ---                    | Or under 10,000,000 yen    | --- | Or under 50     | 70,000 yen      |

## SECTION 3 Taxes in Japan

### 3.3.3 Imposition of enterprise tax on a pro forma basis

Corporations whose capital or investment 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 between April 1, 2015 and March 31, 2016

|                             |                                                     | Example: Tokyo                                           | Standard tax rate |
|-----------------------------|-----------------------------------------------------|----------------------------------------------------------|-------------------|
| Income levy                 | Up to 4 million yen per year                        | 1.755 %                                                  | 1.6 %             |
|                             | Over 4 million yen and up to 8 million yen per year | 2.53 %                                                   | 2.3 %             |
|                             | Over 8 million yen per year                         | 3.4 %                                                    | 3.1 %             |
| Added value levy            |                                                     | 0.756 %                                                  | 0.72 %            |
| Capital levy                |                                                     | 0.315 %                                                  | 0.3 %             |
| Special local corporate tax |                                                     | 93.5% of income levy calculated by the standard tax rate |                   |

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

Business year commencing between April 1, 2016 and March 31, 2017

|                             |                                                     | Example: Tokyo                                            | Standard tax rate |
|-----------------------------|-----------------------------------------------------|-----------------------------------------------------------|-------------------|
| Income levy                 | Up to 4 million yen per year                        | 0.395 %                                                   | 0.3 %             |
|                             | Over 4 million yen and up to 8 million yen per year | 0.635 %                                                   | 0.5 %             |
|                             | Over 8 million yen per year                         | 0.88 %                                                    | 0.7 %             |
| Added value levy            |                                                     | 1.26 %                                                    | 1.2 %             |
| Capital levy                |                                                     | 0.525 %                                                   | 0.5 %             |
| Special local corporate tax |                                                     | 414.2% of income levy calculated by the standard tax rate |                   |

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

Business year commencing between April 1, 2017 and March 31, 2018

|                             |                                                     | Example: Tokyo                                                    | Standard tax rate |
|-----------------------------|-----------------------------------------------------|-------------------------------------------------------------------|-------------------|
| Income levy                 | Up to 4 million yen per year                        | 1.995 %                                                           | 1.9 %             |
|                             | Over 4 million yen and up to 8 million yen per year | 2.835 %                                                           | 2.7 %             |
|                             | Over 8 million yen per year                         | 3.78 %                                                            | 3.6 %             |
| Added value levy            |                                                     | 1.26 %                                                            | 1.2 %             |
| Capital levy                |                                                     | 0.525 %                                                           | 0.5 %             |
| Special local corporate tax |                                                     | to be abolished (to be reflected on the corporate enterprise tax) |                   |

(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 into one of the following tax classifications according to when the business year started, and the respective domestic-source income specified in 3.2.1 or 3.2.2 is subject to corporate tax, local corporate tax, corporate inhabitant tax and 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 and enterprise tax.)

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

**Business year commencing by March 31, 2016**

| <div>Classification</div> <div>Types of income (See 3.2.1)</div> |                                                       | (1) Foreign corporations with PE                                              |                                                                                                                                            | (2) Foreign corporations without PE |
|------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
|                                                                  |                                                       | (1-A) Corporations having a certain fixed place of business, such as a branch | (1-B) Corporations conducting construction works that take more than one year or having an agent satisfying certain requirements           |                                     |
| Domestic-sourced income                                          | Income derived from business activities in Japan      | Corporate tax                                                                 | Corporate tax                                                                                                                              | Exemption                           |
|                                                                  | Consideration for dispatch business such as engineers |                                                                               |                                                                                                                                            | Corporate tax                       |
|                                                                  | Rent of real estate and other properties in Japan     |                                                                               |                                                                                                                                            |                                     |
|                                                                  | Transfer of real estate in Japan                      |                                                                               |                                                                                                                                            |                                     |
|                                                                  | Management of assets in Japan                         |                                                                               |                                                                                                                                            |                                     |
|                                                                  | Interest on deposits and savings                      |                                                                               | <div>Corporate tax (attributable to domestic business)</div> <div>Withholding at source only (not attributable to domestic business)</div> | Withholding at source only          |
|                                                                  | Dividends etc.                                        |                                                                               |                                                                                                                                            |                                     |
|                                                                  | Interest on loans                                     |                                                                               |                                                                                                                                            |                                     |
|                                                                  | Usage fees and other fees                             |                                                                               |                                                                                                                                            |                                     |

(Note) 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<sup>(\*)</sup>, such as a branch, sub-branch, business establishment, office, or factory in Japan.

(\*) However, the following locations do not fall within the definition of a "certain fixed place of business":

(a) A fixed location used by a foreign corporation solely for publicity/advertising, information provision, market surveys, basic study, and other activities auxiliary to the performance of its business (see 3.3.5).

(b) A fixed location used by a foreign corporation solely for the purchasing of its assets.

(c) A fixed location used by a foreign corporation solely for the storage of its assets.

Foreign corporations conducting business through the locations or parties stipulated in 3.3.1(1) or (2) above.

**Business year commencing on or after April 1, 2016**

| <div>Classification</div> <div>Types of income (See 3.2.2)</div> |                                                       | (1) Foreign corporations with PE |                                                | (2) Foreign corporations without PE |
|------------------------------------------------------------------|-------------------------------------------------------|----------------------------------|------------------------------------------------|-------------------------------------|
|                                                                  |                                                       | Income attributable to PE        | Domestic-sourced income not attributable to PE |                                     |
| Domestic-sourced income                                          | Income from business activities                       | Corporate tax                    |                                                |                                     |
|                                                                  | Management/holding of assets in Japan                 |                                  | Corporate tax                                  | Corporate tax                       |
|                                                                  | Transfer of real estate in Japan                      |                                  |                                                |                                     |
|                                                                  | Consideration for dispatch business such as engineers |                                  |                                                |                                     |
|                                                                  | Rent of real estates and other properties in Japan    |                                  |                                                |                                     |
|                                                                  | Other domestic-sourced income                         |                                  | Withholding at source only                     | Withholding at source only          |
|                                                                  | Interest on deposits and savings (3.2.1(6))           |                                  |                                                |                                     |
|                                                                  | Dividends etc. (3.2.1(7))                             |                                  |                                                |                                     |
|                                                                  | Interest on loans (3.2.1(8))                          |                                  |                                                |                                     |
|                                                                  | Usage fees and other fees (3.2.1(9))                  |                                  |                                                |                                     |

## **SECTION 3 Taxes in Japan**

### **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 publicity/advertising, information provision, market surveys, basic study and other activities auxiliary to the performance of its business (see 3.3.4).

### **3.3.6 Calculation of income subject to corporate tax**

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 reserves transferred
- Amount exceeding depreciable limit of depreciable and deferred assets
- Write-down of assets
- Compensation or retirement benefits for directors

### **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 does not exceed 30 million yen, it is subject to a tax rate of 10%. However, if the taxable earnings exceeds 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 80%\* 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.

\* The deductible percentage of 80% will be lowered in a phased manner as follows.

|                                                                   |     |
|-------------------------------------------------------------------|-----|
| Business year commencing between April 1, 2015 and March 31, 2016 | 65% |
| Business year commencing between April 1, 2016 and March 31, 2017 | 60% |
| Business year commencing between April 1, 2017 and March 31, 2018 | 55% |
| Business year commencing on or after April 1, 2018                | 50% |

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 or those between corporations that are owned/owning 50% directly or indirectly in ownership, 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 local corporate 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 the accounting auditor has not completed the audit 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).

## SECTION 3 Taxes in Japan

### (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, tax treatment on the remittances made by a branch of a foreign corporation to its head office varies depending on the business year. In case of the business year commencing by March 31, 2016, the remittances cannot as a general rule be treated as expenses by the payer branch when calculating the taxable income of the branch. In case of the business year commencing on or after April 1, 2016, 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.

## 3.4 Overview of withholding income tax

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Japan's tax filing system is based as a rule on self-assessed income tax payment where individuals (tax payers) 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. Withholding income tax is assessed against payments of certain taxable income, whether paid to an individual or a corporation. Income subject to withholding income tax 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, the withholding income tax may be paid by the last day of the month following that the income was paid. **Regarding withholding tax paid on residents' salaries, certain professional fees, a special exemption** is provided for small businesses with fewer than 10 persons on the payroll that allows them to make a prescribed election to pay withholding income 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 income described in 3.2.1 (2), (3), (4), (6), (7), (8) and (9) above (In case of the business year commencing on or after April 1, 2016, prescribed domestic-sourced income described in 3.2.2 (2) - (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**

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Japan has concluded tax treaties with many countries for the purposes of avoiding double taxation of income internationally and preventing tax evasion.

The provisions of tax treaties supersede those of domestic law. In determining 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 deemed taxable income under Japanese law (specifically the provisions concerning where the income upon which taxation is based is generated), may at times be amended to accord with these tax treaties. Provisions have also been established in Japan for reducing the tax on, or exempting from tax, various types of income sourced in Japan.

Japan's Tax Convention Network website:

- ▶ [http://www.mof.go.jp/english/tax\\_policy/tax\\_conventions/international\\_182.htm](http://www.mof.go.jp/english/tax_policy/tax_conventions/international_182.htm)

## SECTION 3 Taxes in Japan

### 3.6 Overview of consumption tax

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The following domestic and import transactions, except for certain transactions deemed non-taxable, are subject to consumption tax. The consumption tax rate is 8% (inclusive of local consumption tax rate of 1.7%). Although the consumption tax rate is scheduled to increase to 10% (inclusive of local consumption tax rate of 2.2%) from April 1, 2017<sup>\*1</sup>, a reduced consumption tax rate will also be introduced at the same time. The reduced tax rate of 8% (inclusive of local consumption tax rate of 1.76%) will be applied to food and beverages, except for alcoholic drinks and dining out, and newspapers published more than twice a week (based on a subscription contract).

- (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: 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.

<sup>\*1</sup> On June 1, 2016, Prime Minister Shinzo Abe announced that the rise in the consumption tax to 10% and the introduction of the reduced tax rate would be postponed until October 2019.

#### 3.6.1 Self-assessment and payment

Enterprises engaged in domestic transactions (excluding enterprises that are exempt from consumption tax) and parties engaged in import transactions must file and pay consumption tax on their taxable bases by the methods and procedures respectively provided for them. (If the amount of consumption tax on the taxable base of an enterprise (unless a tax-exempt enterprise) is less than the amount of consumption tax on purchases calculated as being deductible by the prescribed method, the shortfall is refunded by filing.) In the case of the prescribed cross-border supplies of electronic commerce by foreign enterprises, the Japanese enterprises who receive the provision of services or foreign enterprises who provide the services are responsible for tax filing.

To ensure that double taxation does not occur at the production and distribution stages, a scheme has been adopted allowing the deduction of consumption tax on purchasing from consumption tax on sales.

#### 3.6.2 Deduction of purchase tax

Consumption tax on purchasing (receipt of the transfer or rental/lease of assets or the provision of services from another party) may be deducted from consumption tax on the taxable base when calculating the amount of consumption tax to be paid. The amount of this deduction is limited, however, depending on the percentage of taxable sales. In order for the consumption tax on the purchase to be deducted, both account ledgers and invoices that describe certain matters have to be retained. For the prescribed cross-border supplies of electronic commerce by foreign enterprises, only the consumption tax on the purchases that are subject to the reverse charge system and the purchases that are received from the registered foreign enterprises can be deducted. If taxable sales<sup>\*1</sup> during the base period<sup>\*2</sup> amounted to 50 million yen or less, the product of consumption tax on the taxable base multiplied by a given percentage determined by industry, may be considered the consumption tax on purchasing for the current taxable year and allowed as a deduction if the prescribed notification is submitted to the director of the tax office.

It should be noted that documents to be retained in order for the consumption tax on purchases to be deducted will change with the introduction of the reduced consumption tax rate on April 1, 2017. Between April 1, 2017 and March 31, 2021, in addition to the account ledgers and invoices that describe certain matters as before, account ledgers and invoices indicating tax rate categories for separate accounting and the items of which are subject to the reduced consumption tax rate have to be retained. After the introduction of a so-called 'invoice system' on April 1, 2021, qualified invoices issued by registered taxable enterprises need to be retained.

### 3.6.3 Tax exempt enterprises

Enterprises whose taxable sales<sup>\*1</sup> are 10 million yen or less for the base period<sup>\*2</sup> (excepting enterprises that have opted to be taxable) and that meet certain conditions are exempt from consumption tax filing/liability for the current year. However, enterprises can elect to be taxable enterprises if the prescribed notification is submitted to the director of the tax office. A company that has no base period, such as a newly established company, whose capital at the start of the taxable year is 10 million yen or more and in certain other cases, cannot be a tax-exempt enterprise in that taxable year.

<sup>\*1</sup> In 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.

<sup>\*2</sup> Base period: The base period is the full accounting period two years prior to 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 this two-year prior period.

## 3.7 Overview of individual tax system

All individuals, regardless of nationality, are classified as either residents or non-residents. Individual income tax comprises self-assessed income tax and withholding income tax. Self-assessed 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\* and persons having a residence in Japan 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.

(Note) 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.

\* "Domicile" as used 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.

< Table 3-6 Scope of personal taxable income >

| Category of income<br><br>Type of residence |                         | 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 |
| Residents                                   | Permanent residents     | Taxable                                  |                    |                        |                    |       |
|                                             | Non-permanent residents |                                          |                    |                        |                    |       |
| Non-residents                               |                         |                                          |                    |                        | Non-taxable        |       |

## SECTION 3 Taxes in Japan

### 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 (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 doing business through a designated agent in Japan, or (c) other non-residents.

Taxable income is calculated within the scope of income established for each classification. The method of taxation for non-residents will also change in terms of income tax pertaining to 2017 or later. 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 certain limits such as non-application 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 |
|----------------------------|-------------------------|-----------|
| ---                        | Or under 1,950,000 yen  | 5%        |
| Over 1,950,000 yen         | Or under 3,300,000 yen  | 10%       |
| Over 3,300,000 yen         | Or under 6,950,000 yen  | 20%       |
| Over 6,950,000 yen         | Or under 9,000,000 yen  | 23%       |
| Over 9,000,000 yen         | Or under 18,000,000 yen | 33%       |
| Over 18,000,000 yen        | Or under 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>

| Employment income                            | Employment income deductions              |
|----------------------------------------------|-------------------------------------------|
| Up to 1,625,000 yen                          | 650,000 yen                               |
| Over 1,625,000 yen and up to 1,800,000 yen   | (employment income) x 40%                 |
| Over 1,800,000 yen and up to 3,600,000 yen   | (employment income) x 30% + 180,000 yen   |
| Over 3,600,000 yen and up to 6,600,000 yen   | (employment income) x 20% + 540,000 yen   |
| Over 6,600,000 yen and up to 10,000,000 yen  | (employment income) x 10% + 1,200,000 yen |
| Over 10,000,000 yen and up to 12,000,000 yen | (employment income) x 5% + 1,700,000 yen* |
| Over 12,000,000 yen *                        | 2,300,000 yen                             |

\* From 2017 onwards, employment income deduction for the income of over 10,000,000 yen will be 2,200,000 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 designating a tax agent and reporting this fact 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 withholding tax on income and self-assessed income tax. For example, the tax rate under domestic law for withholding tax on interest paid to a foreign corporation is 20%, to which will be added restoration income surtax (20% x 2.1%), 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.

## SECTION 3 Taxes in Japan

### 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>

| Heir/Devisee or Legatee<br>/Donee<br><br>Decedent/Donor |                                                       | Address in<br>Japan                              | No address in Japan                             |                                                          |                            |
|---------------------------------------------------------|-------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|----------------------------------------------------------|----------------------------|
|                                                         |                                                       |                                                  | Japanese nationality                            |                                                          | No Japanese<br>nationality |
|                                                         |                                                       |                                                  | Address in Japan<br>within the prior 5<br>years | No address in Japan<br>over the prior 5 years<br>or more |                            |
| Address in Japan                                        |                                                       | Both domestic and foreign properties are taxable |                                                 |                                                          |                            |
| No address<br>in Japan                                  | Address in Japan within the<br>prior 5 years          |                                                  |                                                 |                                                          |                            |
|                                                         | No address in Japan over<br>the prior 5 years or more |                                                  |                                                 | Only domestic<br>properties are<br>taxable               |                            |

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. Even in the case of expatriates having acquired a property outside Japan by inheritance and so on from their family living in their home country while the expatriates stay in Japan as a representative, the property is subject to Japanese inheritance/gift tax.

(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 inheritance/gift tax, regardless of the nationality of the person who received the properties. In other words, not only properties located in Japan but also properties located outside the country are subject to the inheritance/gift tax. Even in the case of expatriates having passed away by an accident etc. while in Japan as a representative and their family to inherit such property are living in their home country, the property is subject to Japanese inheritance/gift tax.

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

When both the person who gave the properties and the person who received the properties have no address in Japan, only the properties located in Japan are subject to inheritance/gift tax. So properties located outside Japan is not within the scope of the inheritance/gift tax. However, in the case of the person who received the properties possessing Japanese nationality, not only the properties located in Japan but also the properties located outside the country are subject to inheritance/gift tax if either the person who gave the properties or the person who received the properties had an address in Japan within the five years prior to the time of the inheritance/gift.

(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, a certain amount of the tax imposed in the foreign country will be credited against the tax in Japan by the provisions of the foreign tax credits to avoid double taxation.

### 3.8 Other principal taxes

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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 (depreciable property tax) and the city planning tax. Land, structures and depreciable assets for business use are subject to a fixed asset tax (depreciable property tax) of 1.4%, payable by the owners of said property as of January 1 each year. The city planning tax is surtax on the fixed asset tax, and 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

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#### 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., firms 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 onwards.

#### 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.

## SECTION 3 Taxes in Japan

### 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 now disallowed to the extent that such interest exceeds 50% of the adjusted taxable income. However, this shall not apply in the case that the amount of interest paid to affiliates does not exceed 10 million yen or if interest payments **to affiliates are not more than 50% of the total amount of that corporation's interest expenses.**

Note that where interest payments are subject to both these rules and the rules on thin-capitalization taxation described in 3.9.4 above would apply, 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 <sup>*1</sup>                 | Applicable to the reduced tax rate of 15% 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. <sup>*2 *3</sup> | 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 <sup>*1</sup>                 | Tax exemption on retained earnings (see 3.3.7)                                                                                                                       |
| Carry-over of losses                             | 100 million yen or less <sup>*1</sup>                 | Not applicable to the provision of the maximum amount of loss that may be deducted from income <sup>*4</sup> (see 3.3.8)                                             |
| Refund for carry-back of losses                  | 100 million yen or less <sup>*1</sup>                 | 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) |

<sup>\*1</sup> 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 (applicable to the business years commencing on or after April 1, 2015).
- \* 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 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 liability | Less than 10 million yen     | Exemption when a company that has no base period, such as a newly established company, meets certain conditions (see 3.6.3) |

## Reference

### 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.

## **SECTION 4 Human Resource Management**

### **4.1 Application of laws**

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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 sets forth the minimum standards on working conditions regarding health and safety; 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**

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#### **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 also 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 find employees.

#### **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.

## **4.3 Labor contracts**

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### **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.

- The term of the agreement (or where there are no provisions pertaining to term, the fact that there are no provisions pertaining to term).
- The workplace, and the duties that the employee will have to perform.
- Matters pertaining to start and finish times, work in excess of regular working hours, breaks, days off and leaves.
- Methods of determining, calculating and paying wages; the wage calculation period and payment times.
- Matters pertaining to resignation 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 for any reason," "the basic wage shall include all overtime pay," 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. However, a worker 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.

### **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. Probation periods generally last for about three months. 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, if a company dispatches workers in its own employment on a regular basis to another company with which they have no contracts of employment to supply labor subject to the directions and orders of that other company, the dispatching company is then classified as engaging in "worker dispatching undertakings" (see 4.3.9). To engage in worker dispatching undertakings, a company must have obtained a government permit.

## **SECTION 4 Human Resource Management**

### **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 contract 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.

### **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

As a rule, temporary workers can be placed at companies to perform any duties other than port transport, construction and security, as well as some medical work. The period where the same temporary worker is allowed to work in the same organizational unit in the client is limited to a maximum of three years. If a placement lasts continuously for more than three years, the temporary worker must be, as a rule, employed directly by the client. However, a temporary worker employed by the dispatching business operator without employment period is not applicable for the period limitation. Companies where temporary workers are placed are prohibited from then placing those workers with other companies.

(2) Contracting

If workers employed by one company (company A) are subject to the independent personnel administration, directions, and orders of company A, though actually performing work at another company (company B), the arrangement is treated as a contracting relationship. In such case, company B cannot give directions or orders to the workers concerned.

(3) Temporary transfer

It is also permitted for workers employed by one company (company A) to enter new employment contracts with another company (company B) to provide labor subject to the directions and orders of company B for a specified period under an agreement between company A and company B.

(Note) It is legally banned that a company (Company-A) which has directly recruited a worker and has him work under its supervision gets another company (Company-B) and the worker apparently make labor contract and treats him a dispatched or seconded worker to the Company-A from the Company-B (Article 44 of Employment Security Act).

#### 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 universally 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) Business Transfer

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 mainly engaged in succeeded undertaking is succeeded to the newly found company or the absorbed company by operation of law.

## SECTION 4 Human Resource Management

### 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 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.

#### 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 (effective from October 1, 2015).

| Prefectures | Minimum hourly wage (yen) | Prefecture | Minimum hourly wage (yen) |
|-------------|---------------------------|------------|---------------------------|
| Tokyo       | 907                       | Chiba      | 817                       |
| Kanagawa    | 905                       | Hokkaido   | 764                       |
| Osaka       | 858                       | Miyagi     | 726                       |
| Aichi       | 820                       | Hiroshima  | 769                       |
| Hyogo       | 794                       | Fukuoka    | 743                       |

#### 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<sup>\*1</sup>. 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<sup>\*2</sup>. 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.

<sup>\*1</sup> According to Japan Business Federation ("Keidanren") statistics, the average bonus paid by private-sector companies in FY2015 was 4.9 months' worth of monthly base pay (for non-managerial positions in all industries).

<sup>\*2</sup> 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 its local Labor 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 4-1 >

| 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.

### 4.5.3 Employers' "obligation to ascertain and calculate 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.

## SECTION 4 Human Resource Management

### 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 4-2>

|                                                                                                         | 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 <sup>*1</sup>               | 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 <sup>*1</sup> | 75%              |
| (7) Work late at night on statutory days off                                                            | 60%              |

<sup>\*1</sup> Rates of increase in items (2) and (6) reflect revisions to the Labor Standards Act that took effect on April 1, 2010 (there was previously no special rate for these categories of overtime work). These new rates of increase will not apply to small and medium-sized enterprises for the time being. Moreover, under the new revisions, employers are allowed to offer paid leave in lieu of additional wages for overtime work 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<sup>\*1</sup> 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 one 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 without having to pay increased rates of wages, 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.

<sup>\*1</sup> 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.

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### **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 Labor 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 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 4-3>

| 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. Companies are not required to compensate for the right to annual paid leave that has expired. The same applies to the cases where there is unused leave at the time of an employee leaving the company.

While annual paid leave previously had to be taken in units of whole days, up to five days' worth of paid leave per year can now be taken in hourly units if agreed upon in a labor-management agreement (under revisions to the Labor Standards Act that took effect on April 1, 2010).

Part-time workers are granted annual paid leave in proportion to the number of prescribed working days that they work.

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.

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### 4.5.9 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 18 months if certain conditions are met), the employer must approve the request. 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 (up to a maximum of 93 days in total per that family member), the employer must approve such a request once only for each occasion that a family member falls into a condition requiring full-time nursing care. Employers may deem employees who have worked at the company for less than one year and those whose employment will terminate within 93 days 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).

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).

The Japanese government has set a target that 30% of leadership positions should be filled by women by 2020.

#### 4.5.10 Investigations by labor standards inspectors

Labor standards inspectors are public employees given the role under Japanese labor standards legislation of entering any kind of business establishment to ensure legal compliance and assist the improvement of working conditions.

A recent focus of investigations has been on the nonpayment of overtime pay, and information published by the Ministry of Health, Labour and Welfare shows that outstanding overtime pay of at least 10 million yen was paid by 196 companies (adding up to 11 billion in total) in FY2014.

### 4.6 Work rules

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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 work rules

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 calculation periods and dates of payment, 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.

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### 4.7 Safety and hygiene

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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 Periodic health check-up

Employers must have all regular employees undergo a health check-up by a doctor once per year (or at least once every six months in the case of employees engaged in specific kinds of work which may damage the employees' health including late night work and work involving X-rays).

### 4.8 Resignation and dismissal

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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, although there is no firm legal precedent, the prevalent doctrine is that even if a company work rules stipulates that employees must give more than two weeks' notice, it is without effect in cases where the rule sets an unreasonable period. 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 an employment 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 a maximum amount.

#### **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 local Labor 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.

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### **4.8.5 Dismissal in practice**

In Japan, it is not so usual for legal steps to be taken 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 usually be persuaded to resign voluntarily. It is also often 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.

### **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 concerned, and similar restrictions are reasonable and commensurate compensation is provided. Regarding trade secrets, both the disclosure of former employers' trade secrets by workers and questioning by enterprises of workers about such trade secrets 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**

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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 accident incurred by workers as a result of 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 for benefits to workers in their old age, or in the case of 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 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 from their wages, and paying these together with the portion of the premiums payable by the company to the relevant authorities.

#### 4.9.2 Workers' Accident Compensation Insurance

< Table 4-4 >

|              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Application  | As a rule, this is compulsorily applicable to all workers. 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 each worker's total wage. The rate of premium depends on the kind of business carried out at the workplace; the maximum premium rate was 8.8% (for metal/non-metal/coal-mining industries) and the minimum is 0.25% (for finance, insurance telecommunications and broadcasting industries) (revised on April 2015). The employer bears the burden of paying premiums.<br>0.002% is added to the above premium to fund benefits for asbestos-induced diseases. |
| Notification | Notifications must 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 4-5 >

|              |                                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Application  | In principle, this applies to all general workers. However, to qualify for Employment Insurance, part-time workers' 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 was 1.10% (the employer paying 0.7% and the worker paying 0.4%) with the exception of a few kinds of job (revised on April 2016).                                                                                                                                                                                  |
| 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.                                                                                                                                                                                                              |

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### 4.9.4 Health Insurance and Nursing Care Insurance

< Table 4-6 >

|              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Application  | Applicable businesses                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | All incorporated companies and sole proprietorships with five or more regular employees are generally 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.                                                                                                                                                                                                                                                                                                                |
|              | 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 <sup>*1</sup> . 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, and Hungary to Japan who are enrolled in medical insurance in these countries are exempt from enrolling in Japan. |
|              | 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.                                                                                                                                                                                                                                                                                                                                                                                                                             |
|              | 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.                                                                                                                                                                                                                               |
|              | 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.                                                                                        |
|              | 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."                                                                                                                                                                                                                                                      |
| Premium      | General insurance premiums for the Japan Health Insurance Association Run Health Insurance are 9.96% (in Tokyo <sup>*2</sup> ) of each insured party's standard monthly remuneration <sup>*3</sup> (maximum: 1.39 million yen) and standard bonus <sup>*4</sup> (maximum: 5.73 million yen per year). For Nursing Care Insurance, premiums are 1.58%. In either case, the insured party and the employer share the premiums equally (revised on April 2016).<br>In the case of Union Run Health Insurance <sup>*5</sup> , 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 From 1 October 2016, part-time employees working for an enterprise with more than 500 employees will also be insured where their prescribed 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.

\*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 4-7 >

|              |                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|--------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Application  | Applicable businesses                                                                                                                                                                        | All incorporated companies and sole proprietorships those (with five or more regular employees) are generally 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.                                                                                                                                                                                                                                                                                                                                                                                                     |
|              | 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 approximately 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 25 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.                                                                                                                                                                                                                                                                                                                             |
|              | 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.                                                                                                                                                                                                                                                                                                       |
|              | Survivor's Pension                                                                                                                                                                           | If an insured party, a person who is eligible to receive an old-age pension or a highly disabled person receiving a disability pension dies, a survivor's pension shall be paid to that person's surviving family.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Premium      | Rate                                                                                                                                                                                         | Insurance premiums are 17.828% (until August 2016) or 18.182% (after the revision in September 2016) of the insured party's standard monthly remuneration (maximum: 620,000 yen) and standard bonus (maximum: 1.5 million yen); the insured party and the employer share the premiums equally.                                                                                                                                                                                                                                                                                                                                                                                                                    |
|              | Pension agreement                                                                                                                                                                            | Japan has social security agreements with Germany, the U.K., South Korea, the U.S., Belgium, France, Canada (except Quebec), Australia, the Netherlands, the Czech Republic, Spain, Ireland, Brazil, Switzerland, and Hungary. Any person insured in the pension system of one of these countries who is sent to Japan is exempted from enrolling in the Japanese pension system upon submitting the appropriate notification at a Pension Office or other appropriate agency. Japan has already signed agreements with Italy, India, Luxembourg, and the Philippines and governmental talks are underway with Sweden, China, Turkey, and Slovakia. Preliminary talks are also underway with Austria and Finland. |
|              | Payment upon leaving                                                                                                                                                                         | When a foreign national returns to his/her country without having received a pension, a portion of the premiums he/she paid shall be refunded. The amount of a refund is calculated according to the length of time that person was covered under Employees' Pension Insurance and the amount of premiums paid.                                                                                                                                                                                                                                                                                                                                                                                                   |
| 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. Premiums are a fixed amount per month (16,260 yen from April 2016 to March 2017) and participants in the system are eligible for Old-age Pension, Disability Pension and Survivor's Pension as well as a payment upon leaving similar to that of the above-mentioned Employees' Pension Insurance system. |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

\*1 From 1 October 2016, part-time employees working for an enterprise with more than 500 employees will also be insured where their prescribed 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.

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### **4.9.6 Labor and social insurance coverage of representative office**

Labor insurance (Workers' Accident Compensation/Employment Insurance): From the aspect of legal theory, the labor insurance coverage of an individual, who is employed by a foreign corporation and working at the representative office that has not been registered in Japan, varies depending on whether or not the individual, including the representative of the office, falls under the definition of "workers" under the Labor Standards Act in Japan. However, since there are no established official documents issued in Japan regarding the foreign corporation which is the employer as well as no handling standards used by the government in such a case, it is currently difficult for the government to recognize the representative of the office as a "worker". On the other hand, with regard to other workers, if the representative is set as the employer, the workers can follow the procedure in order to be covered by the insurance. Therefore, in many cases, the representatives are not covered by the insurance. However, it does not mean that the representatives cannot be covered by the insurance.

Social insurance (Health/Employees' Pension Insurance): In case of a representative office with less than 5 employees, voluntary coverage with the representative of the office as the employer (the representative does not become the person insured) or voluntary coverage as the association without right capacity (registration) (including the representative) are available. If a representative office has 5 or more employees and fall under the prescribed kinds of businesses, as a general rule, insurance coverage is mandatory. However, with regard to the procedure of including the representative as the person insured, the government does not have the specific rules for handling this matter; therefore, it is currently difficult. Accordingly, it is recommended to request the expert if necessary.

## 4.9.7 Review of labor and social insurance systems

< Table 4-8 >

| Insurance                                   | Benefit                                                                                                                                                   | Coverage                                                                                                                                                           | Premium rate<br>(% 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.                                                                                                       | 0.35% (In cases of import and trade, and sales industries)                                                          | —                                                                                                                   | - Special coverage available for employers<br>- 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.                                                           | 0.7%                                                                                                                | 0.4%                                                                                                                | 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 full-time workers employed at incorporated companies, as well as part-time workers whose prescribed working hours were not less than 75% of full-time workers. | 4.98% (5.77% if aged 40 or over)                                                                                    | 4.98% (5.77% if aged 40 or over)                                                                                    | This premium rate applies only to Japan Health Insurance Association Run Health Insurance (in Tokyo).                        |
| Employees' Pension Insurance                | Benefits are paid for old age, disability and death.                                                                                                      |                                                                                                                                                                    | 8.914% (9.091% from September 2016)                                                                                 | 8.914% (9.091% from September 2016)                                                                                 | A system exists under which premiums are partially returned to foreign nationals upon withdrawal from the insurance program. |
| Child Benefits Contribution                 | Contribution to a social welfare system for child benefit, and differs in nature from the welfare benefits offered to workers through their employers.    |                                                                                                                                                                    | 0.20%                                                                                                               | —                                                                                                                   |                                                                                                                              |
| Total                                       |                                                                                                                                                           |                                                                                                                                                                    | 15.144% until August 2016 (15.934% if aged 40 or over):<br>15.321% from September 2016 (16.111% if aged 40 or over) | 14.294% until August 2016 (15.084% if aged 40 or over):<br>14.471% from September 2016 (15.261% if aged 40 or over) |                                                                                                                              |

As of June 2016

\* 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.

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<Table 4-9> Social security agreements already effective and in preparation

| Country            | Agreement effective from | Aggregate period | Social security system subject to duplication prevention     |                                                                                                                                                                 |
|--------------------|--------------------------|------------------|--------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                    |                          |                  | Japan                                                        | Country                                                                                                                                                         |
| Germany            | February 2000            | Exist            | Public pension system                                        | Public pension system                                                                                                                                           |
| U.K.               | February 2001            | Not exist        |                                                              |                                                                                                                                                                 |
| Korea              | April 2005               | Not exist        |                                                              |                                                                                                                                                                 |
| U.S.               | October 2005             | Exist            | Public pension system/<br>Public medical insurance system    | Public pension system/<br>Public medical insurance system                                                                                                       |
| Belgium            | January 2007             | Exist            |                                                              | Public pension system/<br>Public medical insurance system/<br>Public accident compensation insurance system for workers /<br>Public employment insurance system |
| France             | June 2007                | Exist            |                                                              | Public pension system/<br>Public medical insurance system/<br>Public accident compensation insurance system for workers                                         |
| Canada             | March 2008               | Exist            | Public pension system                                        | Public pension system (excluding Quebec)                                                                                                                        |
| Australia          | January 2009             | Exist            |                                                              | Retirement pension security system                                                                                                                              |
| Netherlands        | March 2009               | Exist            | Public pension system/<br>Public medical insurance system    | Public pension system /<br>Public medical insurance system,<br>employment insurance system                                                                      |
| the Czech Republic | June 2009                | Exist            |                                                              |                                                                                                                                                                 |
| Spain              | December 2010            | Exist            | Public pension system                                        | Public pension system                                                                                                                                           |
| Ireland            | December 2010            | Exist            |                                                              |                                                                                                                                                                 |
| Brazil             | March 2012               | Exist            | Public pension system                                        | Public pension system                                                                                                                                           |
| Switzerland        | March 2012               | Exist            | Public pension system/<br>Public medical insurance system    | Public pension system/<br>Public medical insurance system                                                                                                       |
| Hungary            | January 2014             | Exist            | Public pension system/<br>Public medical insurance system    | Public pension system/<br>Public medical insurance system,<br>employment insurance system                                                                       |
| Italy              | In preparation           | Not exist        | Public pension system/<br>Public employment insurance system | Public pension system/<br>Public employment insurance system                                                                                                    |
| India              | In preparation           | Exist            | Public pension system                                        | Public pension system                                                                                                                                           |
| Luxembourg         | In preparation           | Exist            | Public pension system/<br>Public medical insurance system    | Public pension system/<br>Public medical insurance system/<br>Public accident compensation insurance system for workers /<br>Public employment insurance system |
| The Philippines    | In preparation           | Exist            | Public pension system                                        | Public pension system                                                                                                                                           |

As of June 2016



## Reference

### 1. Corporate benefit costs

The expenses that a company spends on the welfare benefits of its employees can generally be divided into two groups: statutory welfare expenses, which include labor and social insurance premiums, as well as other legally required costs; and voluntary welfare expenses. According to a study\*<sup>1</sup> carried out in FY2014 (April 2014 through March 2015), the portion of wages comprised of welfare benefits was 19.2%. Specifically, the aforementioned statutory welfare expenses took up 14.8%, while voluntary welfare benefits amounted to 4.4% of the total (excluding lump-sum retirement allowances and retirement pensions).

Voluntary welfare benefits include providing accommodation, health check-ups and other health-related benefits, general life assistance such as subsidized meals at in-house cafeterias, and the provision of recreational facilities. The ratio of lump-sum retirement allowances and retirement pensions to the total cash wages was 9.8%.

\*1 Performed by the Japan Federation of Economic Organizations (Since the numbers were rounded off, the total number may not be equal to the sum total.).

### 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 2015 was estimated to be 17.4%, which is on a declining trend. Examining labor unions by scale (only private sector), we can see that workers at 45.7% of companies with 1,000 or more employees are unionized, while the same can be said of only 12.2% of companies with employees of between 100 and 1,000. In the case of companies with less than 100 employees, employees at only 0.9% of businesses are unionized.

### 3. Coverage of temporary workers by labor law

The term "Temporary worker" refers to a worker that enters into an employment 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.

## **SECTION 4 Human Resource Management**

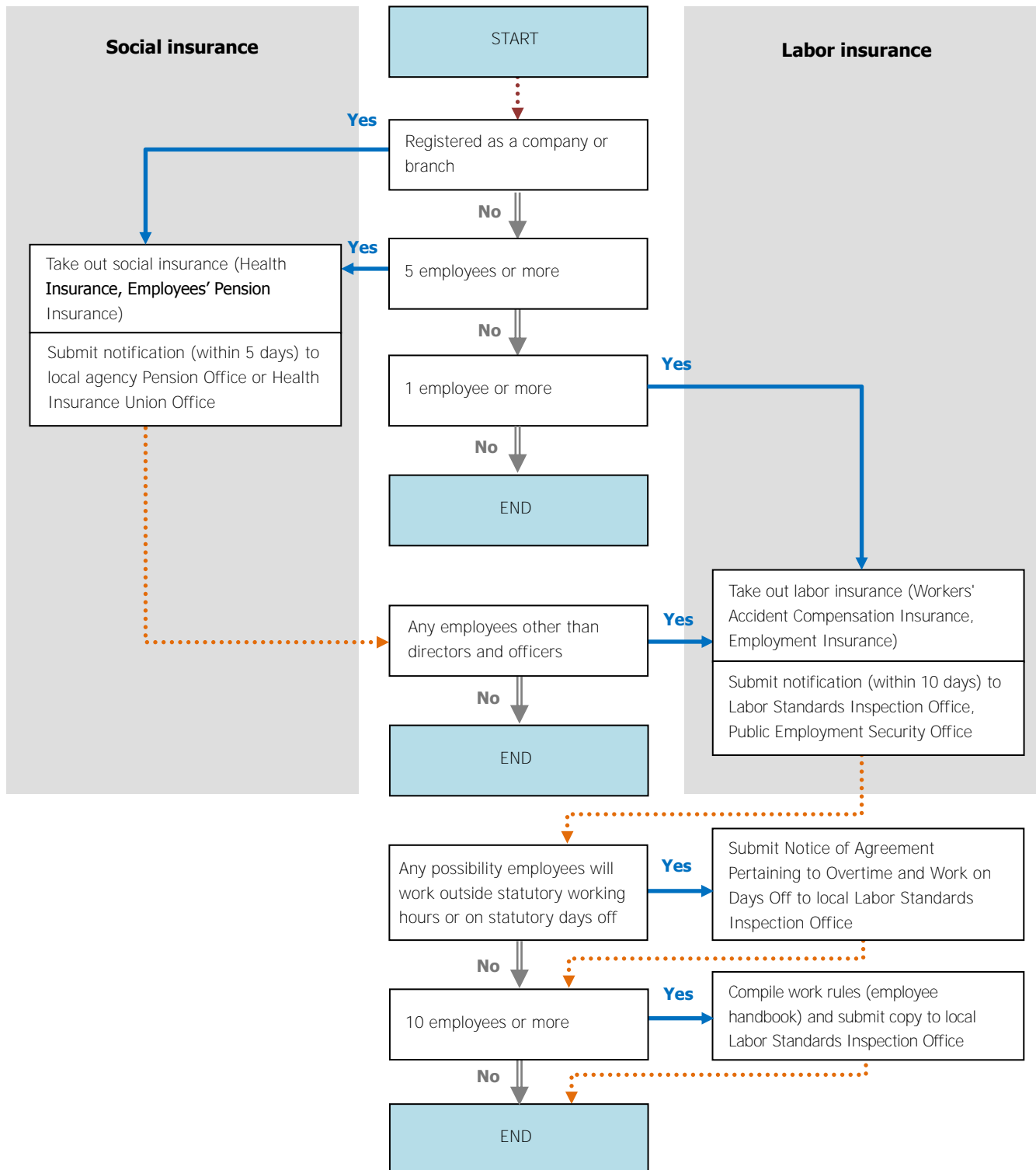
### **4. Consultation with specialists on human resource management**

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.

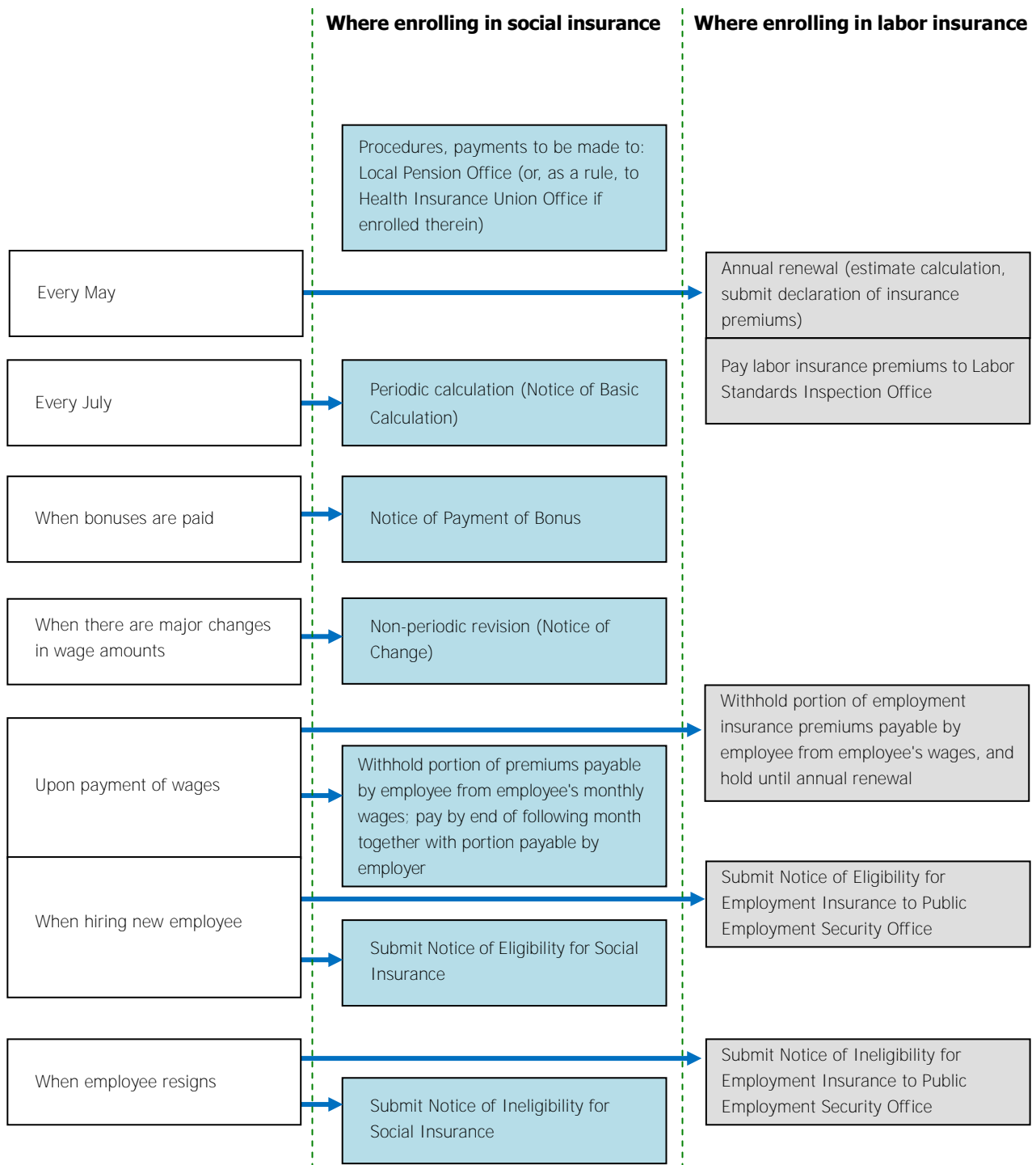
(Performance of services covered by (1) and (3) by persons other than labor and social security attorneys in private practice, certified social insurance labor and social security attorney corporations, or attorneys is prohibited by law.)

## Social and labor insurances procedures when setting up a company and hiring staff



## SECTION 4 Human Resource Management

### Annual procedures



## **5.1 Legislation on trademark and design**

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Japan's trademark system provides for the protection of the marks and logos that are used in commerce on goods or services. By enabling trademarks to identify the source of goods or services, and to identify their qualities and publicize them, the trademark system protects the commercial reputation of persons using trademarks, thereby contributing to the development of Japan's industries and protecting the interests of consumers. Japan's trademark system is regulated by the Trademark Law.

Meanwhile, Japan's design system is regulated by the Design Law, which protects the attractive and comfortably functional shape, pattern, color and other design characteristics of items relating to their external appearances. Japan's Design Law protects new designs as the property of the designer, and also encourages the use of designs, thereby promoting the creation of new designs and contributing to the development of Japan's industry.

## **5.2 Japan's trademark system**

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### **5.2.1 Equality for both Japanese and foreign nationals**

Japan's Trademark Law offers equal protection for Japanese and foreign nationals; the same trademark registration process and conditions apply to those residents in Japan and overseas. Therefore, by offering proper trademark protection to people who do not currently live in Japan and companies presently without head offices or branches in the country, Japan's trademark system encourages future expansion into the Japanese market by overseas businesses.


### **5.2.2 First-to-file rule**

Trademarks do not have to be currently in use (either in Japan or overseas) in order to be registered in Japan; if the trademark owner has the intention of using the trademark in the future, it can be registered in Japan as long as certain criteria are met. Thus, it is very important for any foreign business that thinks it might expand into Japan at some time in the future to consider applying for registration of trademarks in Japan before entering the Japanese market. Note, however, that trademarks must be used within three years after registration, or they may be nullified. Using your trademark just once within those three years is enough to prevent your trademark rights from being cancelled.

## SECTION 5 Trademark and Design Protection Systems

### 5.2.3 Scope of protection

Under Japan's Trademark Law, trademarks are categorized as follows.

|                                                                                                                                    |                                                                                                                                                                                   |                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| <p>(1) Trademark consisting of characters including Japanese characters, alphabetical characters and other foreign characters.</p> | <p>(4) Three-dimensional trademarks (this is a new addition to the law included in a revision in 1996; at present, dolls, spheres and three-dimensional signs are protected).</p> |  |
| <p>(2) Trademarks consisting of devices or symbols.</p>                                                                            |                                                                                                                                                                                   |                                                                                     |
| <p>(3) Trademarks consisting of characters and devices/symbols.</p>                                                                |                                                                                                                                                                                   |                                                                                     |

SONY



There is also a system known as Collective Trademark Registration, which was included in the law in the 1996 revision. While this differs from the types of trademark protection described above, it provides for the registration of trademarks by any group comprised of businesses (with the exception of groups that are not official bodies corporate) for the purpose of allowing all members of the group to use the trademarks. Specifically, the system aims to protect the unique brands and names used by groups formed to revitalize regional economies and specific industries.

A system called the Regional Collective Trademark system was also introduced by a legal amendment in 2005 in order to protect and strengthen regional brands. This allows the registration of marks consisting of a regional name and generic name for a commodity or service, such as *Matsuzaka-Gyu* (beef produced in the Matsuzaka region in Japan) and *Aomori-Ringo* (apples produced in the Aomori region in Japan), provided that certain requirements, such as being sufficiently well-known in a certain area, are met.

Formerly, a collective trademark application by the Society of Commerce and Industry, the Chamber of Commerce and Industry and NPO Corporation were not accepted. However, according to a revision of the Trademark Law in 2014 (Enforcement on August 1, 2014), the Society of Commerce and Industry, the Chamber of Commerce and Industry and NPO Corporation are now entitled to file collective trademark applications.

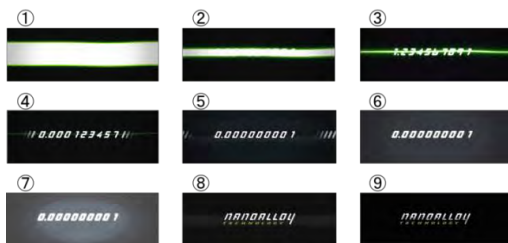
### 5.2.4 Start of "New-type trademark" protection

Formerly, "New-type trademark" has not been in the scope of protection of trademarks. However, many Japanese companies have been requested to protect these trademarks, and in view of the fact that these trademarks can gain a practical use by protection, (1) Sound marks (2) Color per se marks without delineated contours, (3) Motion marks, (4) Position marks and (5) Hologram marks, which have already been broadly protected overseas are in the scope of protection of trademarks, the revision of the Trademark Law was enacted in 2014 and has taken effect since April 1, 2015. Thus, the trademark system of all of the said new-type trademarks has been started. Examples of "Color per se marks without delineated contours" and "Motion marks" are as follows.

Color per se marks without delineated contours: Apl No. 2015-30535 NEXT Co., Ltd.



Motion marks: Reg No. 5816758 Toray Industries, Inc.



### 5.2.5 Protection of trademarks about retailers, etc.

According to a revision of the Trademark Law in 2006 (Enforcement on April 1, 2007), "Retail services, etc." may now be accepted as designated services for the purpose of protection for the names of retail and wholesale stores and the names of mail-order businesses (including online sales).

Therefore, it is now possible to register the names of stores, such as retail outlets, as well as the names of individual products.

### 5.2.6 Similarity of trademarks

Trademarks must be unique in order to be registered; the sound, the appearance and the meaning of every trademark must not be similar to any other trademark.

#### (1) Sound

This refers to the sound of the trademark as well as the pronunciation of any characters used therein. Going by the standard of English language education in Japan, it can reasonably be assumed that most Japanese people will be able to understand the pronunciation of English words or Japanese words written in alphabetical characters correctly. However, the same cannot be said for words of other languages. Therefore, in order to avoid confusion, it is preferable to add Japanese kana characters showing how to pronounce the trademarks consisting of words in foreign languages other than English to ensure that the proper pronunciation is protected.

#### (2) Meaning

This refers to the meaning inferred from the characters that comprise the trademark. In the case of a trademark in a foreign script, the words "Black Cat", for example, would conjure up the image of a black cat in the minds of Japanese people, however the German words "Schwarze Katze" or the Spanish words "Gato Negro" would not immediately spark the appropriate feline image in people's minds, and it is possible that they are recognized as coined words which do not have a specific meaning. Therefore it is possible that such trademarks could not exclude other trademarks which do cause people to imagine a black cat if registered as trademarks. In this situation, it may be better to obtain separate protection for a trademark which consists of a Japanese translation of the original foreign-language phrase.

#### (3) Appearance

Trademarks consisting of characters that Japanese people are unable to recognize as written characters, such as Mongolian or Hindi, are treated as trademarks consisting of devices. This means that the trademark owner is unable to reap any benefits that a trademark consisting of written characters may have, so one idea is to apply for a separate registration of trademarks consisting of a Japanese translation or Japanese characters denoting the pronunciation of the foreign-language phrase.

## SECTION 5 Trademark and Design Protection Systems

### 5.3 Validity and term of trademark registration

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#### 5.3.1 Validity of registration

When a trademark is registered, that trademark is protected against unauthorized use of identical or similar trademarks by any other person; such use may constitute a breach of civil or criminal law. Trademark owners are disadvantaged by the illegal selling of fake brand-name goods. The trading of such bogus items is severely punishable under Japanese law, and in many cases, illicit sellers of fake brand-name goods are charged with criminal (as opposed to civil) offences.

#### 5.3.2 Renewal

Once registered, a trademark is protected for 10 years starting from the registration date, assuming that the trademark is not subsequently invalidated or cancelled. Protection can be renewed for further 10-year periods.

#### 5.3.3 Protection of world famous trademarks

Because Japan's trademark system is generally operated on a first-to-file rule basis, therefore, if the owner of the trademark wishes to protect his trademark legally, it has to be filed an application for registration to Japan Patent Office and to be registered in principle. However, famous or known trademarks without taking any procedures for filing are protected exceptionally assuming that they are only famous or known in Japan but also in foreign countries.

### 5.4 Cancellation of trademarks

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#### 5.4.1 Non-use of trademarks

Under Japan's Trademark Law, trademarks can be registered even if they are not in use at the time under the first-to-file rule. However, you should be fully aware that, if a trademark is not used at all within a period of three years following registration, a petition for the cancellation of that trademark may be filed by an interested third party. Incidentally, "use" of a trademark is not limited to the displaying of the trademark directly on a product; the printing of a trademark in a pamphlet together with an image of the product, the use of the trademark in an advertisement for the goods such as in a newspaper, or the displaying of goods featuring the trademark on an Internet website all constitute "use."

<Problematic point>

By the rapid spread of the Internet of these days, everyone can easily access many kinds of website in the world. In such circumstances, when the trademark is used only on the website, there are arguments whether it could be the use of the trademark under Japan's Trademark Law. If the trademark is used on the website obviously for the purpose of the sales in Japan, it could be authorized that it is the use of the trademark. However, if the trademark is used on the website for the purpose of the sales in foreign countries, there is a doubt whether it is the use of the trademark under Japan's Trademark Law or not.

#### 5.4.2 Cancellation of proxy registration

Japan's trademark system protects the right of duly authorized trademark owners. For instance, where overseas-based goods or services are provided in Japan, and where the overseas company involved has entered into an agency agreement with a Japanese company, if that local agent applies for registration of the overseas company's trademark without due cause or permission, the duly authorized trademark owner may file a petition for the cancellation of the Japanese registration, and can thereby regain their trademark rights.



## 5.5 The registration process

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### 5.5.1 Application and registration fees

Following a revision of the Trademark Law in 1992, Japan's trademark system has been operated under the same international classification system as other countries; there are 45 classes of goods and services, as well as those for goods and services unique to Japan. Applications can be made for individual classes or in several classes at once (known as "multiple-class" applications). Since April 1, 2008, however, a notification of reasons for refusal pursuant to the body of Article 3, Paragraph 1 of the Trademark Act is now issued if goods and services in eight or more similar groups are designated per class due to operational requirements at the Japan Patent Office.

It is always best to consult a professional advisor such as a patent attorney---known in Japan as a *benrishi*---when applying for trademark registration. Naturally, applying for and being granted registration of a trademark incurs fees. The fees for this process in Japan are as follows.

(1) Application fees

- a. One trademark in one class: 12,000 yen.
- b. One trademark in multiple classes: 12,000 yen for the first class, and an extra 8,600 yen for each additional class.
- c. Note that the above amounts are official fees only, and do not include patent attorney's fees, etc.

(2) Registration fees

When filing an application, fees differ according to whether the application is for a single class or multiple classes. Registration fees, on the other hand, are 28,200 yen per trademark per class regardless of the type of application. Remember that, if you engaged a patent attorney, you will be charged fees in addition to the above registration fees; these may include fees for the work involved in paying the official fees.

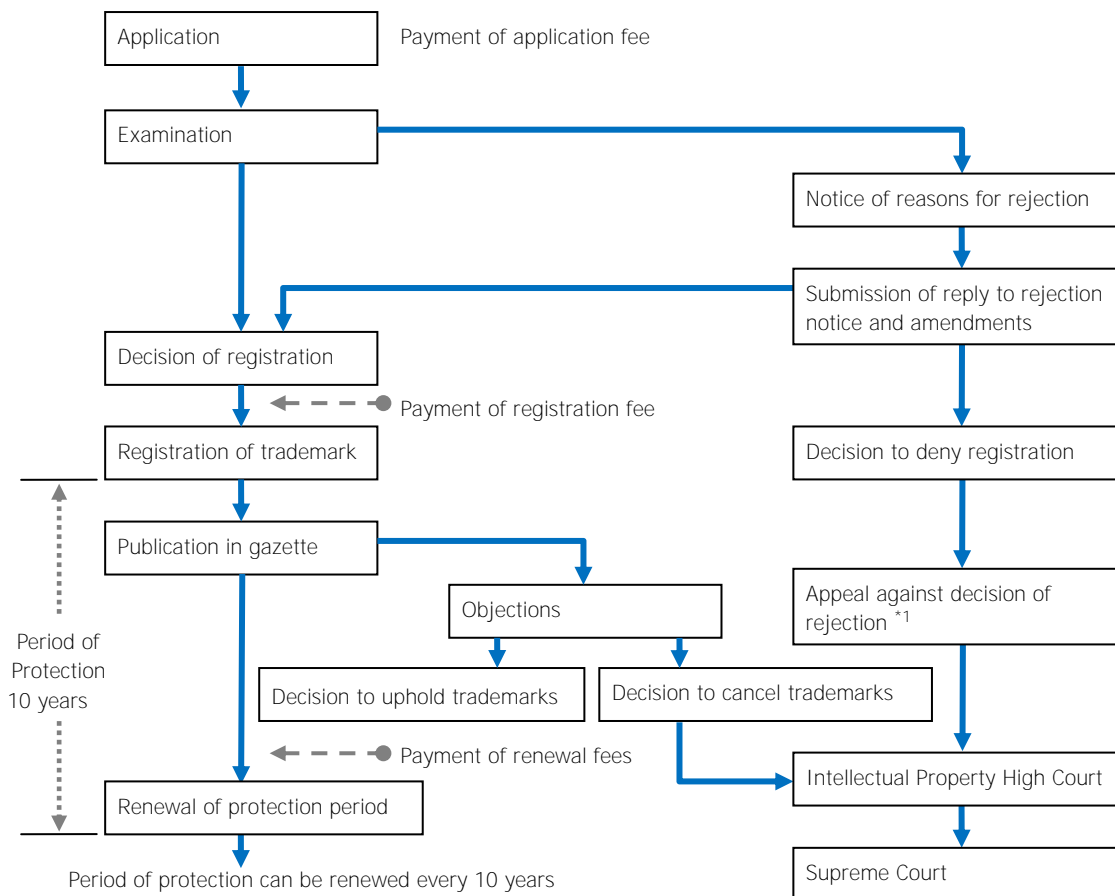
(3) Renewal expenses

38,800 yen per class must be paid as a renewal registration fee at the time of renewal. As in the case of applications and registrations, you will also be charged other fees, such as a fee for the work involved in paying renewal registration fees, if you engaged a patent attorney.

## SECTION 5 Trademark and Design Protection Systems

### 5.5.2 From application to registration

If the examination process goes smoothly, a trademark can be registered in as little as three months from the time of filing the application. Generally, however, the examination takes approximately six months, and the registration takes another one or two months. Allow about eight months after application to complete the process.



\*1 Under revisions to the law in FY2008, the deadline for demanding an appeal was changed from 30 days to 3 months from the transmittal of the examiner's decision of refusal.

## 5.6 International registration of trademarks

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In principle, to obtain trademark rights in Japan from within a foreign country, an application for registration must be filed with the Japan Patent Office. However, the following two schemes may be preferable alternatives.

### 5.6.1 Application under the Paris Convention

If you intend to apply for registration of a trademark in Japan only, or in a small number of countries, it may be a good idea to file your application under the Paris Convention.

### 5.6.2 Application under the Madrid Agreement

Japan is also a signatory to the Madrid Agreement, so this is another alternative when making an international trademark application that includes Japan. Under this system, it is possible to file an international application and register trademarks in specified countries based on the application you initially filed in your own country. This is a particularly handy system for conglomerate companies with interests in many countries around the world.

## 5.7 Protection of designs

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### 5.7.1 Scope of protection

Under Japan's Design Law, protection is available for the form, pattern or color of an object or a combination of these, which appeals visually to the viewer's sense of aesthetics. Put simply, Japan's system protects the shape, form and external appearance of an object.

(1) Criteria

- a. Visual appeal to aesthetic sense  
Objects whose form cannot be recognized by the human eye, such as a single grain of powder, do not meet this criterion.
- b. Industrial usability  
The design must be able to be recreated using an industrial (mechanical or hand-based) process and must be able to be mass-produced.

(2) Examination criteria

- a. Novelty  
No identical or similar design must have been in existence before the application was made; in other words, the design must be completely new.
- b. Ease of creation  
No design that is adjudged to be lacking creativity will be registered, regardless of whether or not it is new.
- c. Uniqueness  
Designs that are either identical or similar to other designs for which applications have been filed or which have been registered are not deemed to be newly-created designs, and will therefore not be registered (except for the application filed by the same person).
- d. Eligibility  
From a standpoint of public interest, the following designs will not be registered.
  - Designs that may breach public order and morals.
  - Designs that may cause confusion with any item pertaining to the business of any other person.
  - Designs consisting of only the minimum form necessary to ensure the functions of the object.
- e. One design per application  
Discrete applications must be made for each design. In some cases, however, several objects may be deemed to comprise a "design of a set of objects" as long as certain criteria are met.
- f. Priority  
If more than one application is filed for the registration of two identical or similar designs, the application filed first will be eligible for registration. If the same person files two identical or similar design applications within a certain period, one of which is deemed as the original design and the other is deemed as a related design, both designs will be eligible for registration under the related design system.

## SECTION 5 Trademark and Design Protection Systems

### 5.7.2 Term of protection

Protection of design rights begins once a design is registered, and continues for 20 years. However, it is important to note that, contrary to trademarks, it is necessary to pay an annuity each year in order to maintain protection. Furthermore, while design rights generally lapse upon the passing of 20 years, if the form of the registered object becomes famous, it is possible to receive protection under the Unfair Competition Prevention Law even after design rights lapse.

### 5.7.3 A protection system unique to Japan

Japan's Design Law provides a system of protection that is very unique to this country. Below are some major examples of this.

(1) Related design system

Under Japan's Design Law, not only are designs originally registered in relation to a certain object protected, but similar designs related to that object and filed in a certain period are also protected. However, if you feel that official advance confirmation is required regarding the extent to which your design is similar to the one registered, you may register your design as a "similar design."

(2) Design of a set of objects

Under the provisions of Japan's Design Law, design applications and registration usually follow a one-design-per-object principle, however there is an exception to that rule. This exception allows for discrete objects that common sense dictates are usually sold as a set---a knife, fork, and spoon, for example---to be registered as a single design of a set of objects. Intelligent use of this system has the advantage of helping keep costs to a minimum.

(3) Secret designs

When a design is registered, it is generally published in the Design Gazette, however Japan offers a system that allows a registered design to be kept a secret for a certain period upon application. This is known as the "Secret Design" system. Because designs are influenced so strongly by fads and fashions, and because some products' periods of popularity tend to end sooner than others', this system aims to protect the rights of the design-owners for a certain period of time. It should be noted, however, that this system tends to limit litigators' options when suing for infringement of rights, and so the system is used infrequently at best.

(4) Partial designs

Because traditionally design rights have protected an entire object, protection could not be guaranteed against infringement by people who copied only parts of a design. However, under a revision to the law in 1998, the partial design system was introduced allowing registration of parts of shapes or forms with distinct characteristics. Thus, while it used to be that if somebody copied only part of a design they would escape prosecution as long as the overall design was not similar, the new system allows registration of partial designs, meaning that infringements can be prosecuted. Indeed, this is one of the most important aspects of Japan's Design Protection system.

(5) Protection of screen designs

According to a revision of the Design Law in 2006, screen designs (such as the designs of operation screens for programming DVD recorders, operation screens for selecting a person to call on a cellular phone, and photo printer setup screens) under the certain conditions are now protected within the scope of designs which forms a part of goods.

## 5.8 The registration process

### 5.8.1 Application and registration fees

Naturally, applying for and being granted registration of a design incurs fees. The fees for this process in Japan are as follows.

(1) Application fees

- a. 16,000 yen per design
- b. Note that the above amount is the official fee only, and does not include patent attorney's fees, fees for design drawings, etc.

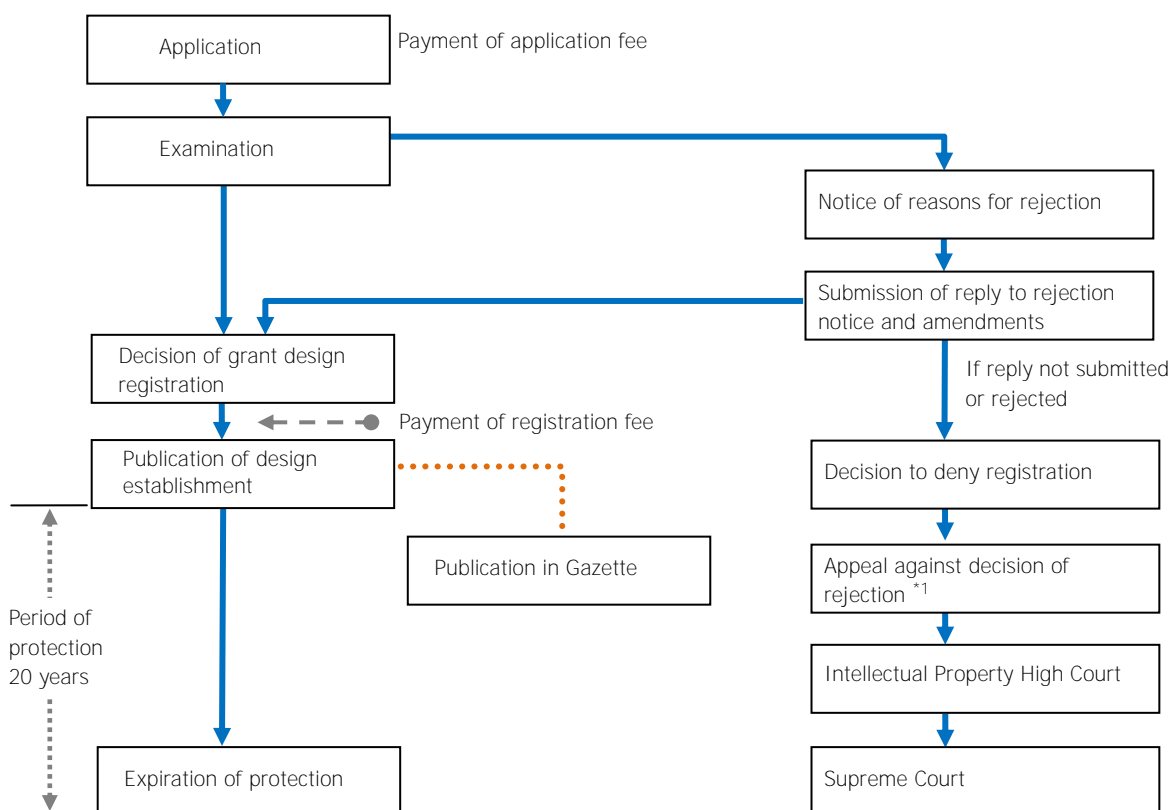
(2) Registration fees

A registration fee is required when registering a design, however these fees differ from those of trademarks. The design registration fee for the first year is 8,500 yen and an annuity must be paid each year in order to maintain the validity of the design rights. The annuities are as follows.

|                     |                     |
|---------------------|---------------------|
| Years 1 through 3:  | 8,500 yen per year  |
| Years 4 through 20: | 16,900 yen per year |

### 5.8.2 From application to registration

If the examination process goes smoothly, a design can be registered in as little as three months from the time of application. Generally, however, the examination takes approximately six months, and the registration takes another one or two months. Allow about eight months after application to complete the process.



\*1 Under revisions to the law in FY2008, the deadline for demanding an appeal was changed from 30 days to 3 months from the transmittal of the examiner's decision of refusal.

## **SECTION 5 Trademark and Design Protection Systems**

### **5.9 International Registration of Industrial Designs**

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Due to acceding to Geneva Act of Hague Agreement concerning the International Registration of Industrial Designs, Japan Patent office has introduced the International Registration of Industrial Designs. According to a revision of the Industrial Design Law in 2014, it is possible to file a design application with multiple offices overseas in one procedure simultaneously. The Hague Agreement took effect on May 13, 2015 and has entered into force since the same day.

### 1. Unregistered trademarks and designs

Under Japanese law, unregistered trademarks and designs may be protected from unauthorized use by other people under the Unfair Competition Prevention Law. If a trademark or design is not registered but becomes generally known or famous in Japan after use, the trademark or design, as well as the form of the object that becomes generally known, is protected. Furthermore, forms of new goods are protected for up to three years from the date on which they were first sold in Japan, even if no patent, utility model right or design has been registered. This means that if any other person copies the form of that new product, protection is available under criminal or civil law.

### 2. Consultation with specialists for intellectual property rights

The experts publicly authorized to act as agents in carrying out application procedures for intellectual property rights such as patents, designs and trademarks, are, of course, patent attorneys; in Japan they are known as benrishi. Regular lawyers (bengoshi) may also perform this work, however, because a very high level of expert knowledge regarding intellectual property rights is required, it is most common for those who wish to acquire rights, or whose patent or trademark rights have been infringed, to hire a patent attorney. Furthermore, under Japanese law, legal action pertaining to infringement of rights is currently the sole domain of lawyers (bengoshi), but starting in 2004, patent attorneys (benrishi) may also represent a client in court along with a lawyer (bengoshi) as long as they pass certain national examinations.

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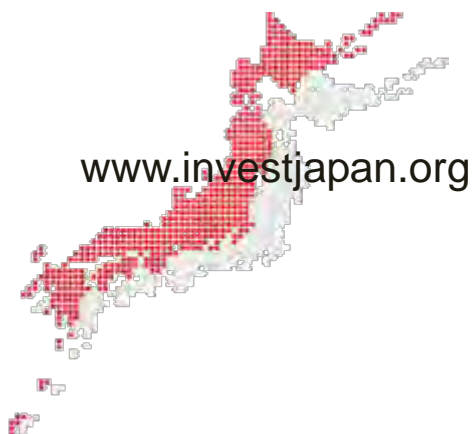
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