Guide to Japanese Taxes

CONTENTS

Japan Federation of Certified Public Tax Accountants’ Associations

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* The information included in this material is based on the tax system effective as of 1 April 2012.

1. Introduction

(1) Principle of "Taxation under the Law"

The Constitution of Japan declares the principle of "taxation under the law," in Article 30, "the people shall be liable to taxation as provided by the law," and in Article 84, "no new taxes shall be imposed or existing ones modified except by law or under such conditions as the law may prescribe."

These provisions clarify that taxation is a means to transfer part of the people's wealth to the state's coffers to procure funds for public services. Therefore, tax assessment and collection should be conducted according to the provisions of the law.

(2) Self-Assessment System

① Methods to determine tax liabilities

There are three methods to determine tax liabilities: the "self-assessment" method, the "official assessment" method, and the method of determining liabilities at the time of assessment.

Under the self-assessment method, the tax amounts that are due are determined on the basis of returns filed by taxpayers. This method is applied to most major tax items, such as individual income tax, corporation tax, inheritance tax, gift tax, corporate inhabitant tax, enterprise tax, and consumption tax.

Under the official assessment method, the tax amounts that are due are determined by the tax authorities. This method is applied to property tax, automobile tax, additions to national tax, etc.

In addition to the methods mentioned above, there is a method in which the tax amounts that are due for withholding income tax, stamp tax, etc., are determined without any special procedures at the same time that tax liabilities are established.

As described above, taxation in Japan is based on the self-assessment system.

It could be said that the self-assessment system, under which taxpayers calculate their own tax amounts, file tax returns, and pay taxes, realizes the ideal of the Japanese constitution, which sets forth the principle of sovereignty of the people for tax purposes.

② Filing tax returns and requesting reassessment

There are three ways that tax returns can be filed:

a. Filing returns within the due date

Taxpayers paying taxes under the self-assessment system must file their tax returns by the statutory deadline. Those returns are called tax returns filed within the due date.

b. Filing returns after the due date

Taxpayers who have failed to file returns within the due date may file returns even after the deadline, if the district director of the tax office has not yet made a decision.

c. Filing amended returns

Taxpayers who have already filed returns or who have received decisions on reassessment may file amended returns, before a reassessment is made by the district director of the tax office, if they find the tax amount shown in their original returns is too low.

Taxpayers who have filed returns with excessive tax amounts may request, no later than five years from the statutory due date of tax filing, that the district director of the tax office within their jurisdiction reassess their tax amount. However, with regard to gift tax and corporation tax related to transfer pricing, the period within which a request for reassessment can be made is 6 years; with regard to corporation tax pertaining to net loss, the period is 9 years.

③ Blue return system

An individual or corporate taxpayer who has the approval of the district director of the tax office may file a blue return with various privileges.

The goal of this system is to popularize the self-assessment system and to promote proper bookkeeping of accounts and records.

④Electronic filing

Taxpayers can choose to file returns, pay taxes, and submit applications or notifications using electronic filing, also known as e-Tax and eLTAX.

2. Major Taxes in Japan

	National Taxes	Local Taxes	
		Prefectural Taxes	Municipal Taxes
Taxes on income	Individual income tax Corporation tax	Prefectural inhabitants' tax Enterprise tax	Municipal inhabitants' tax
Taxes on gifts and inheritances	Gift tax Inheritance tax		
Taxes on properties		Automobile tax	Fixed asset tax Special landholding tax City planning tax Light motor vehicle tax Enterprise establishment tax
Taxes on consumption	Consumption tax	Golf course utilization tax	
Taxes on transactions	Stamp tax Registration and license tax	Real property acquisition tax Automobile acquisition tax	

3. Taxes on Income and Profits

(1) Taxes on Individual Income

The taxes that are levied on an individual's income are income tax, inhabitant tax, and, to a certain degree, enterprise tax.

① Individual Income Tax

a. Income refers to the total amount of earnings minus the necessary deductible expenses to get those earnings during a year. Income is categorized into 10 types: income from interest, income from dividends, income from real estate, business income, employment income, retirement income, income from forestry, capital gains, occasional income, and miscellaneous income.

Under the self-assessment system, taxpayers who have taxable income must calculate the whole income earned for the year from January 1 to December 31 and their tax liability (amount), and pay the amount of tax that is due. However, salary earners are not required to file tax returns, because their employers withhold taxes from employee salaries and wages and then make year-end adjustments to the amounts paid.

Those who must file final returns are:

・those whose annual income from one source exceeds ¥20 million,
・those whose income from sources other than salary and retirement income exceeds ¥200,000,
・those who earn salaries from two or more sources.

The period for filing final returns for income earned during a year is from February 16 to March 15 of the following year.

b. Classifications of taxpayers

Taxes are levied on an individual in accordance with the residential status of the individual. Residential statuses are classified into the following categories.

- Individuals
  - Residents*
    - Non-permanent residents**
    - Permanent residents***
  - Non-residents****

Notes: * Residents are those who have a domicile in Japan and have resided continuously in Japan for one year or more.
Those who enter Japan as salary earners with the intention to reside in Japan are presumed to be residents immediately after their entry into Japan, unless it is clearly recognized that their stay in Japan will not be more than one year.

** Non-permanent residents are non-Japanese nationals who have not had a domicile or residence in Japan continuously for more than five years in the past ten years.

*** All residents other than non-permanent residents

**** All individuals other than residents

c. Scope of taxable income

Classification		Scope of Taxable Income			
		Income from Sources in Japan		Income from Sources Abroad	
		Paid in Japan	Paid Abroad	Paid in Japan	Paid Abroad
Resident	Non-permanent Resident	All income taxable	All income taxable	All income taxable	The part deemed to be remitted to Japan is taxable. (The part retained abroad is not taxable.)
	Permanent resident	All income taxable	All income taxable	All income taxable	All income taxable
Non-resident		Income taxable in principle		Not taxable	

d. Income tax rates

Brackets of taxable income (Unit: ¥1,000)		Tax rate (%)
Over	Not over	
—	1,950	5
1,950	3,300	10
3,300	6,950	20
6,950	9,000	23
9,000	18,000	33
18,000		40

However, with regard to income that occurs from January 1, 2013 to December 31, 2037, an additional 2.1% tax will be imposed as Special Reconstruction Income Tax.

② Inhabitants' Tax

Prefectural inhabitants' tax and municipal inhabitants' tax are generically called inhabitants' tax. The inhabitants' taxes are levied on a per-income base and a per-capita basis on those who have a domicile as of January 1. For those who have an office or a house, even if they do not live there, the inhabitants' taxes are levied on a per-capita basis.

The amount of inhabitants' tax is calculated on the basis of the income earned in the previous year. The tax rate is 10% of income, regardless of the amount of income. The standard amount of per capita tax levied in a year is ¥4,000, regardless of the amount of income.

However, during the years from 2014 to 2023, ¥1,000 will be added to the standard amount of per capita tax as a Special Reconstruction Tax.

(2) Taxes on Corporate Income

The taxes that are levied on corporate income in Japan are corporation tax on the national level and corporate inhabitant tax and enterprise tax on the local level.

① Corporation Tax

a. Corporation tax is levied on corporations' income. Corporations are classified into domestic and foreign corporations. Domestic corporations have their head office and others in Japan, while foreign corporations are corporations other than domestic corporations. When a foreign corporation establishes a subsidiary or an affiliate company in Japan, this subsidiary or affiliate company is regarded as a domestic corporation. However, branch offices, manufacturing plants, and other permanent establishments (PEs) set up in Japan by foreign corporations are regarded as foreign corporations.

b. Classifications of taxpayers

Domestic corporations must pay corporation tax on income that comes from Japan and from foreign sources. However, foreign corporations are subject to corporation tax only on specified income from Japan.

c. Scope of taxable income

Domestic corporations are subject to corporation tax on the income for each business year and on liquidation income, while foreign corporations are subject to corporation tax only on income from sources in Japan during each business year.

d. Business year

A business year is the period over which the profits and losses of a corporation are calculated. The business year is stipulated by the company's articles of incorporation.

e. Tax rates

The tax rate is 25.5%. For a company with capital of ¥100 million or less, a lower rate of 15% is applied to an annual income of ¥8 million or less. However, in the business years starting during the period from April 1, 2012 to March 31, 2015, an additional 10% tax will be imposed as Special Reconstruction Corporation Tax.

f. Final tax return

Corporations are required to file final returns within two months from the last day of their business year.

g. Place for tax payment
For a domestic corporation, the place for tax payment is the location of the head office. For foreign corporations, it is the location of the main office or other main permanent establishment in Japan.

h. Transfer pricing taxation
Business deals with a partner abroad where the amount of consideration to be received is less than the arms' length price or the amount of consideration to be paid exceeds the arms' length price are regarded as having been made at the arms' length price.

i. Consolidated taxation system
The consolidated taxation system was introduced in Japan in April 2002. Under this system, a parent company and its subsidiaries are deemed to be a consolidated group that is subject to corporation tax. This system applies to groups of Japanese companies in which a Japanese parent company owns 100% of the other Japanese companies (subsidiaries). The parent company shall file the consolidated tax return based on the aggregated taxable income.

j. Taxation for corporate reorganizations
If a corporation is reorganized by means of a merger, company split, capital contribution-in-kind, post formation, share exchange, or share transfer and its reorganization meets certain requirements, special tax treatment is applied and the recognition of the gains and losses on the transfer of the assets will be deferred.

k. Group taxation regime
The Group taxation regime was introduced in October 2010. Under this regime, a group of companies that own 100% of the shares of other companies is deemed as one entity for tax purpose, and taxes imposed on transfers of real estate or shares within the group will be deferred until the assets are sold outside of the group.

l. Thin capital taxation system
Under this system, interest is partly excluded from a corporation's deductible expenses when the corporation has borrowed money exceeding three times the amount of its capital from its foreign leading shareholders.

② Corporate inhabitants' tax

This tax is levied by the prefectures and municipalities (city, town, or village) where a corporation has business establishments.

③ Enterprise tax

This tax is levied by the prefecture where a business operates.

(3) Withholding Income Tax

When a corporation pays a certain amount of salaries, wages, remunerations, etc., to individuals or corporations, it must withhold income tax from the amount paid, and pay the income tax to the tax office of its jurisdiction. The scope of income subject to withholding tax and the tax rates vary depending on whether a payee is a resident (including domestic corporations) or a non-resident (including foreign corporations). The income of a resident that is subject to withholding tax includes interest, dividends, salary, retirement allowances, and remunerations. Income from retirement benefits and salary is subject to progressive tax rates, while a maximum tax rate of 20% is applied to the other types of income.

Income taxes for non-residents can be classified as follows.

Outline of Income Taxes for Non-residents

Type of Non-resident / Type of Income	Those Who Have a Permanent Establishment in Japan: Those Who Have a Branch Office or Other Fixed Establishment for Business (No.1PE)	Those Who Have a Permanent Establishment in Japan: Those Who Have Been Engaged in Construction Work, etc., for over One Year, or Have Agent(s), etc., Who Meet Certain Qualifications (No.2PE, No.3PE)	Those Who Do Not Have a Permanent Establishment in Japan	Withholding Tax
Income from business	Comprehensive taxation	Comprehensive taxation	Exempted	None
Income from assets	Comprehensive taxation	Comprehensive taxation	Total taxation	None
Other income from sources in Japan	Comprehensive taxation	Comprehensive taxation	Total taxation	None
Distribution of profits from association contract business	Comprehensive taxation after levying withholding tax	Comprehensive taxation after levying withholding tax	Exempted	20%
Counter-values for land transfers, etc.	Comprehensive taxation after levying withholding tax	Comprehensive taxation after levying withholding tax	Comprehensive taxation after levying withholding tax	10%
Counter-values for business rendering human services	Comprehensive taxation after levying withholding tax	Comprehensive taxation after levying withholding tax	Comprehensive taxation after levying withholding tax	20%
Rental and other revenues from leasing real estate	Comprehensive taxation after levying withholding tax	Comprehensive taxation after levying withholding tax	Comprehensive taxation after levying withholding tax	20%
Interest, etc.	Comprehensive taxation after levying withholding tax	Separate taxation at source	Separate taxation at source	15%
Dividends, etc.	Comprehensive taxation after levying withholding tax	Separate taxation at source	Separate taxation at source	20%
Interest on loans	Comprehensive taxation after levying withholding tax	Separate taxation at source	Separate taxation at source	20%
Rents and other usage fees	Comprehensive taxation after levying withholding tax	Separate taxation at source	Separate taxation at source	20%
Salaries, other counter-values for	Comprehensive taxation after levying withholding tax	Separate taxation at source	Separate taxation at source	20%

rendering human services, public pensions, retirement allowances, etc.					
Prize money for advertisement of business		Subject to business in Japan	Subject to business outside of Japan		20%
Pensions and others based on contracts of life insurance					20%
Compensation benefits from installment savings					15%
Distribution of profits based on anonymous association contracts, etc.					20%

However, depending on the situation, there may be cases where separate taxation is applied to the individual income derived from transferring shares and real property and where withholding taxation is unnecessary.

As of the end of April 2012, Japan has tax treaties with 64 countries/regions, and under those tax treaties, there are potential reductions in tax rates and tax exemptions. To receive these tax relief measures, those who receive payment are required to submit notification concerning the tax treaties to the relevant tax office through those who are paying the tax.

4. Taxes on Gifts and Inheritances

(1) Gift Tax

Those who acquired property as a gift must file a return to pay gift tax in the period from February 1 to March 15 of the year following the acquisition of the property.

Under certain conditions, those who received a gift on or after January 1, 2003, can choose to pay the tax at the time of inheritance. The taxable value is the amount after deducting the basic allowance (¥1,100,000) and the spouse allowance (¥20,000,000).

Taxable amount and tax rate

Taxable amount (Unit: ¥1,000)		Tax rate
Over	Not over	%
—	2,000	10
2,000	3,000	15
3,000	4,000	20
4,000	6,000	30
6,000	10,000	40
10,000		50

(2) Inheritance Tax

Those who acquired property by inheritance or bequest must file a return to pay inheritance tax within, in principle, ten months after the date of the acquisition. The person who died is called the ancestor, and the person who inherited property is called the inheritor.

The scope of property subject to inheritance tax varies depending on whether the inheritor's address (domicile) is within or outside of Japan.

Taxable amount and tax rate

Taxable amount (Unit: ¥1,000)		Tax rate
Over	Not over	%
—	10,000	10
10,000	30,000	15
30,000	50,000	20
50,000	100,000	30
100,000	300,000	40
300,000		50

5. Taxes on Consumption

Consumption tax is imposed on the sale and lease of goods and services in Japan. Business enterprises engaged in such business activities are obliged to pay consumption tax. However, because consumption tax is added on to the prices of goods and services, the tax is finally borne by consumers. Imported goods are taxable, but exported products are exempted from the tax.

Individuals and corporations who collect consumption tax in their business transactions must file returns on and pay the difference between the amount received and the amount paid during the taxable period.

The tax rate is 5%. This includes a 1% local consumption tax.

6. Taxes on Properties and Transactions

(1) Fixed Asset Tax and City Planning Tax

① Fixed asset tax

Individuals and corporations who own real property, such as land and houses, and any depreciable assets for business, such as machines and equipment, are required to pay this tax to the municipality.

The annual tax rate is 1.4%. The municipal governments are allowed to apply a tax rate higher than 1.4% but not exceeding 2.1%.

② City planning tax

Those who own real property, such as land and houses, are required to pay this tax to the municipality. The goal of this tax is to finance city planning and land readjustment projects.

The tax rate is 0.3% of the value of land and houses.

(2) Automobile Tax and Light Motor Vehicle Tax

① Automobile tax

This tax is paid by car owners to the prefecture where their automobiles are regularly garaged or stored.

② Light motor vehicle tax

This tax is paid by owners of motorized bicycles, light motor vehicles, small-sized special motor vehicles, and two-wheeled small-sized motor vehicles to the municipality where their vehicles are regularly garaged or stored.

(3) Enterprise Establishment Tax

This tax is paid by corporations and individuals who do business in big cities with populations of 3 million or more people in accordance with the size of the floor space of their business establishment and with the total amount of salaries paid to their employees.

(4) Registration and License Taxes

① Real property registration tax

This tax is paid by corporations and individuals who have registered the right of ownership of land or buildings with the national government.

② Commerce registration tax

This tax is paid at the time of the establishment of a company, a capital increase, a registration of a branch, changes in board directors, a change in a corporate name, and other commercial registrations. This tax must be paid when patents, copyrights, and qualifications are registered.

(5) Real Property Acquisition Tax

This tax is paid to the prefecture by corporations and individuals who have acquired land or a building.

(6) Stamp Tax

This tax is paid to the national government by corporations and individuals who have prepared certificates of economic transactions, such as various contracts, securities, receipts, etc..

7. Organization of Tax Administration

The tax administration in Japan, in general, is classified into the national and the local levels depending on the authorities that impose the taxes. Both the national government and the local governments administer various taxes.

(1) Structure of National Tax Administration

The National Tax Agency, an external organ of the Ministry of Finance that is in charge of the assessment and collection of internal taxes, supervises 11 Regional Taxation Bureaus throughout Japan and the Okinawa Regional Taxation Office, under which 524 tax offices are set up to execute tax administration. Taxpayers are required to file returns and pay for internal taxes such as income tax, corporation tax, and consumption tax to the tax office with jurisdiction over the location where the taxpayers reside.

(2) Structure of Local Tax Administration

Local taxes are administered by the Local Tax Bureau of the Ministry of Public Management, Home Affairs, Posts and Telecommunications, which is responsible for planning local taxes on the prefectural and municipal levels and for determining competent tax authorities. Public services regarding tax assessment and collection are provided by the local governments, which have the right of taxation. The Bureau of Taxation, taxation sections, etc., under each prefecture and municipality (city, ward, town, or village) are in charge of the assessment and collection of prefectural taxes and municipal taxes, respectively.

(3) Tax Examination and Remedy System

① Tax examination and corrections/determinations

Under the self-assessment system, a taxpayer’s tax liability is determined, in principle, based on the returns filed by the taxpayer. However, when it is found that the filed returns contain errors or irregularities, a tax examination will be conducted by the District Director of the tax office, and the tax amount will be determined on the basis of the examination.

When the District Director of the tax office finds it necessary to do so, the taxpayer’s account books and relevant records will be inspected in accordance with the provisions of the law.

When it is found that a person who has not filed a tax return is liable to pay taxes, the District Director of the tax office will determine the tax liabilities.

For those who have filed returns, the District Director of the tax office will correct the tax amount when the results of examinations show that the tax amount is under-declared.

When tax is imposed additionally as a result of correction or determination, a certain additional tax (surcharge) will be imposed as a penalty.

② Tax Appeal System and Litigation

If a taxpayer is dissatisfied with a reassessment, determination, or disposition of tax delinquency made by the District Director of the tax office, etc., the taxpayer may file a request for reinvestigation to the District Director of the tax office, etc.

A taxpayer who is dissatisfied with the determination by the District Director of the tax office and others in relation to the abovementioned request is entitled to file a request for reconsideration to the Director-General of the National Tax Tribunal.

Even after the decision made by the Director-General of the National Tax Tribunal, a taxpayer who remains dissatisfied is entitled to file litigation before the judicial court.