

# Guide to Japanese Taxes

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### **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 2018.

## 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, corporate tax, consumption tax, inheritance tax and gift tax, which are national taxes, and corporate inhabitant tax and enterprise tax, which are local taxes.

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 embodies 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 (claim for correction)

There are three types 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, until a reassessment is made by the district director of the tax office, if their original returns are under-assessed.

Taxpayers who have filed returns with over-assessment 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. (In terms of tax returns having the statutory due date

before 2 December 2011, the period for requesting is one year from the statutory due date of tax filing.)

③ Blue-form return system

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

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

④ Electronic filing

Taxpayers can 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 Corporate income tax	Prefectural inhabitants' tax Enterprise tax	Municipal inhabitants' tax
Taxes on gifts and inheritances	Gift tax Inheritance tax		
Taxes on properties	Motor vehicle tonnage tax	Automobile tax	Fixed asset tax Special landholding tax City planning tax Light motor vehicle tax Enterprise establishment tax
Taxes on consumption	Consumption tax Tabaco tax Liquor tax	Local consumption tax Prefectural Tabaco tax Golf course utilization tax	Municipal Tabaco 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 and inhabitant tax, and enterprise tax levied on business' income made by individuals.

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 income tax from employee salaries and wages and then make year-end adjustments to the amounts paid.

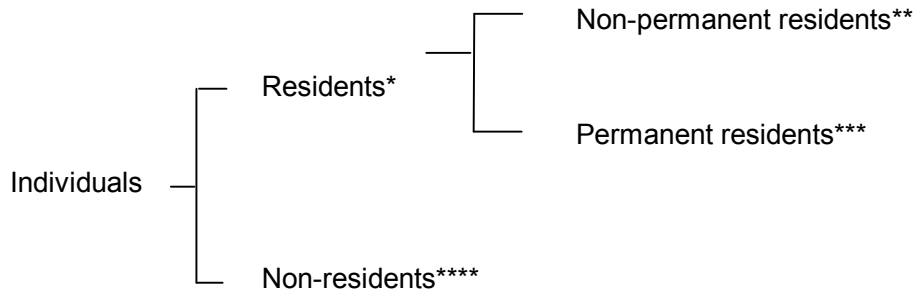
Those who must file final returns are:

- 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.



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	40,000	40
40,000		45

On income which occurs from January 1, 2013 to December 31, 2037, an additional 2.1% of Income tax as Special Reconstruction Income Tax will be imposed.

② Inhabitants' Tax

Prefectural inhabitants' tax and municipal inhabitants' tax are generally 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 have a domicile, 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. Per capita tax levied in a year is ¥4,000. During the years from 2014 to 2037 additional per capita tax, 1,000 yen will be imposed as a Special Reconstruction Tax.

## (2) Taxes on Corporate Income

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

### ① Corporate Tax

- a. Corporate 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 corporate tax on income that comes from Japan and from foreign sources. However, foreign corporations are subject to corporate tax only on specified income from Japan.
- c. Scope of taxable income  
Domestic corporations are subject to corporate tax on the income for each business year and on liquidation income, while foreign corporations are subject to corporate 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 23.2%. For a company with capital of ¥100 million or less, a lower rate of 19% is applied to an annual income of ¥8 million or less.
- 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 corporate 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 in Japan. This tax is levied on per-corporate tax base and per-capita base.

③ Enterprise tax

This tax is levied by the prefecture where a business operates. This tax is levied on income base. And this tax is levied on value-added and capital appropriation based on the pro forma business size such as the number of employees and the amount of capital.

### **(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 and Special Reconstruction Income Tax from the amount paid, and pay the withheld tax to the tax office of its jurisdiction. The scope of income subject to withholding tax and the tax rates vary depending on whether the 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.

Taxation system including withholding income tax for foreign corporations can be classified as follows.

## Outline of Income Taxes for Foreign Corporations

Classification		Foreign Corporations having a PE in Japan		Foreign Corporations not having a PE in Japan	Withholding Income Tax	
		Income imputed to PE	Domestic Source Income not imputed to PE			
Type of Income						
Domestic Source Income	(Income from business)		Income to be		None	
	Operation and holding of domestic property (excluding from (7) to (14) below)		imputed to PE			None
	to these) Transfer of domestic property (limited	Transfer of domestic real estate		(Corporation tax)	Corporation Tax	None (*1)
		Transfer of rights residing on domestic real estate				None
		Transfer or logging of domestic timbers				
		Transfer of forestalled stocks of domestic corporations				
		Transfer of stocks similar to business transfer				
		Transfer of stocks of RE related corporations				
		Transfer of stocks of corporations which own and/or operate domestic golf courses				
	4) Compensation for business rendering human services				20.42%	
	5) Rental and other revenues from leasing domestic real estate				20.42%	
	6) Other income from source in Japan				None	
	7) Bond interests, etc.				15.315%	
	8) Dividends				20.42%	
	9) Loan Interests				20.42%	
	10) Fee for use, etc.			Withholding tax only	20.42%	
	11) Prize money for business advertising				20.42%	
	12) Pension and others based on contracts of life insurance				20.42%	
13) Compensation benefits from installment savings				15.315%		
14) Distribution of profits based on anonymous association contracts, etc.				20.42%		
Other income than domestic withholding income			Not Subject to tax		None	

Notes (\*1) As for transfer of land 10.21% of withholding tax is levied.

2 Classification from (7) to (14) is based on the Income Tax Act. This classification of domestic source income is not set under the Corporation Tax Act.

As of 1 June 2016, Japan has tax treaties with 96 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 make the payment.



## 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. The taxable value is the amount after deducting the basic allowance (¥1,100,000) and the special spouse allowance (¥20,000,000).

The donee who receives a gift from the parents or grandparents has an option to apply the inheritance tax adjustment system in which the donee pays smaller amount of tax on gifts and settles the final amount as inheritance tax later.

#### Taxable Amount and tax rate

Transfer other than those stated to the right		Transfer from lineal ascendant (parent, grand-parent) to a person of 20 years or over	
Taxable amount (Yen)	Tax rate (%)	Taxable amount (Yen)	Tax rate (%)
2 million or under	10	2 million or under	10
3 million or under	15	4 million or under	15
4 million or under	20		
6 million or under	30	6 million or under	20
10 million or under	40	10 million or under	30
15 million or under	45	15 million or under	40
30 million or under	50	30 million or under	45
Over 30 million	55	45 million or under	50
		Over 45 million	55

### (2) Inheritance Tax

Those who acquired properties by inheritance or bequest, and the total value of the properties exceeds the basic deductible allowance, 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 (Yen)	Tax rate (%)
10 million or under	10
30 million or under	15
50 million or under	20
100 million or under	30
200 million or under	40
300 million or under	45
600 million or under	50
Over 600 million	55

\* The amount of basic deductible allowance is 30 million yen plus 6 million yen times the number of legal heirs.

## 5. Taxes on Consumption

### (1) Consumption tax

Consumption tax is imposed on the sale or lease of goods and services in Japan. Business enterprises engaged in such business activities are obliged to file a consumption tax return and pay the stated amount. However, because consumption tax is added on to the prices of goods and services, the tax is essentially borne by final 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 and pay the difference between the tax amount received and the tax amount paid during the taxable period.

The tax rate is a flat rate of 8% (including a 1.7% of local consumption tax).

### (2) Tobacco tax, Prefectural Tobacco Tax, Municipal Tobacco Tax

These taxes are levied on consumption of Tobacco.

### (3) Liquor tax

This tax is levied on liquors including 1% or over of alcohol.

### (4) Golf Course tax

This tax is levied on use of golf course by prefectures.

## 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 standard tax rate is 1.4%, however, the municipal governments designate a tax rate by regulations.

#### 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 Weight Tax, Automobile Tax and Light Motor Vehicle Tax

#### ① Automobile weight tax

This tax is paid to the national government depending on the weight of a vehicle, etc. at a time of car inspection.

#### ② Automobile tax

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

③ 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 including the ordinance-designated cities 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 also 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) Automobile Acquisition Tax**

This Tax is paid to prefectures by corporations and individuals when acquiring vehicles.

## **7. Organization of Tax Administration**

The tax administration in Japan, in general, is classified into the national and the local levels depending on the taxation categories. 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 (Sapporo, Sendai, Kanto-Shinetsu, Tokyo, Kanazawa, Nagoya, Osaka, Hiroshima, Takamatsu, Fukuoka, Kumamoto) 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 national taxes such as income tax, corporate 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 Internal Affairs and Communications (MIC), 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 power 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, the tax amount will be determined and corrected on the basis of the examination conducted by the District Director of the tax office.

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 an action of determination or correction made by the District Director of the tax office, etc., the taxpayer may file a request for re-examination to the District Director of the tax office, etc.

A taxpayer who is still dissatisfied with the decision on the request for the re-examination is entitled to make an appeal to the Director-General of the National Tax Tribunal.

Even after the decision on the appeal made by the National Tax Tribunal, a taxpayer who remains dissatisfied is entitled to file litigation to the judicial court.