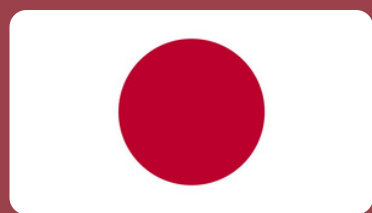


Guide to do business in

# JAPAN

Chandrawat  
& Partners





## ABOUT JAPAN

## ADVANTAGES

## SIMPLE TAX REGIME

Known as "Land of the Rising Sun," Japan is a group of many islands close to the east coast of Korea, China and Russia. It occupies a chain of islands in East Asia in the North Pacific Ocean roughly parallel with the eastern coast of Asia's mainland. Japan is world's one of the most literate and technically advanced nations, its economy is a highly developed free-market economy and the third-largest in the world by nominal GDP. It ranked 7th in the 2020 Best Countries Survey Power Ranking. Cars, consumer electronics, computers, semiconductors, copper, iron, and steel are the main export goods from Japan. Other key industries in Japan are petrochemicals, pharmaceuticals, bio-industry, shipbuilding, aerospace, textiles, cosmetics, and processed food. Its automotive industry is one of the largest industries in the world. Japan was among the three countries with the highest production of cars since the 1960s, surpassing Germany.

Currently, Japan remains one of the world's leading industrial powers and is an excellent location for international companies to invest. Some of the key benefits of doing business in Japan are mentioned below:

### Gateway to the Asian Market

Japan not only offer a captive consumer base of 127 million citizens, but, it also offers an exciting yet stable business market open to trade and foreign investment. Japan's huge economy already boasts an established base of the world's top companies especially in the fields of environment, healthcare, IT and automotive.

### Highly Educated Workforce

Japanese are highly educated and their workforce is extremely learned as well. There are over 600 universities in Japan. However, Japanese workers are highly devoted to the companies that they work for and strive toward the success of the group over the success of the individual.

### World-Class Companies and SMEs with Unique Technologies

In Japan, companies of all sizes produce unique and innovative products and services. Its strong technology-based industries offer significant opportunities for foreign companies looking to partner with Japanese firms at all stages.

### World's Third-largest Economy

After United States and China, Japan has the third largest economy and makes up about 6% of total Gross Domestic Product. Having been called the "gateway to the Asian market" Japan's 127 million citizens drive a market-oriented economy, allows for abundant business ventures and opportunities.

### Infrastructural Facilities

- Japan offers robust infrastructural facilities for companies and different industries. Companies can easily operate in Japan as there is excellent infrastructure.
- Major global companies such as Sony and Toyota from Japan have carried out business and diversified their presence throughout the world.
- It has a highly developed, modern infrastructure of roads, highways, railroads, subways, airports, harbours, warehouses and telecommunications for the distribution of all types of goods and services.

### Absence of Double Taxation

Japan has signed different forms of double taxation agreements with other countries, which:

- eliminates the tax barrier;
- minimize the amount of withholding tax; and
- tax free repatriation of money to the home country.

### Individual Income Tax for Residents

In Japan, permanent resident taxpayers are taxed on their worldwide income. The tax is levied at the following rates:

- Income less than JPY 1.95 million is liable to tax at rate of 5%;
- From JPY 1.95 to 3.3 million is liable to tax at rate of 10% + JPY 97,500;
- From JPY 3.3 to 6.95 million is liable to tax at rate of 20% + JPY 232,500;
- From JPY 6.95 to 9 million is liable to tax at rate of 23% + JPY 962,500;
- From JPY 9 to 18 million is liable to tax at rate of 33% + JPY 1,434,000;
- From JPY 18 to 40 million is liable to tax at rate of 40% + JPY 4,404,000; and
- More than JPY 40 million is liable to tax at rate of 45% + JPY 13,204,000.

## **Non-residents**

- A non-resident taxpayer is liable to pay the tax at a flat rate of 20.42% national income tax on gross compensation with no deductions available.
- A non-resident taxpayer may be liable to the local inhabitant's tax at a rate of 10%, if they are registered as a resident, as of 1 January of the following year.

## **Corporate Taxes for Resident Company**

A domestic company in Japan is taxed on its worldwide income, including foreign branch income, while 95% of dividends received by a company from a foreign company in which it has held at least 25% of the outstanding shares for a continuous period of six months or more can be excluded from the company's taxable income.

## **Foreign Company**

A foreign corporation is taxed only on its Japan-source income. A foreign corporation with a permanent Establishment (PE) in Japan is liable for corporate income taxes only on the income attributable to the PE.

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Being one of the most developed country in the world, Japan attracts thousands of foreign investors each year. Some important forms of business in Japan are followings:

### **Sole Proprietorship**

This kind of companies is the basic and simplest form of business in Japan, formed by a single owner, who is fully liable for the business debts but who can keep the profit of the company. In case of liquidation, his personal assets are not protected from the creditors' claims.

### **Joint Stock Company**

Joint Stock Company can be created with a small capital, as little as 1 JPY and requires at least one founder who can also be the sole shareholder; who can be a natural or legal person. Directors of the open joint stock company are elected for an undetermined period of time and at least one director should be resident in Japan. The process for the joint stock company is based on the Articles of Association, which must state:

- name of the company,
- address of headquarter,
- name and address of the founder,
- goals of the company, and
- value of the authorized capital, etc.

### **Limited Liability Company**

As the name suggests, the members of a limited liability company in Japan have their liability limited by their contribution to the capital. It is managed by a manager, a natural person or a corporate body. The managers are elected for an undetermined period of time.

### **General Partnership**

In Japan, general partnership is formed by members united under the same name, with the same objectives. The difference between the usual general partnership and the Japanese general partnership is that, the Japanese partnership may be formed by a single member. In case of dispute, if the partnership cannot pay its debts and obligation, the personal assets of the partners may be seized.

### **Branch of a foreign company**

Any foreign investor, who is interested to form an entity in Japan, can open a branch office in Japan. In this form of entity, one Japanese resident must be appointed as the branch representative. Branches in Japan are taxed at the same corporate income tax rate for the profits they derive from the country.

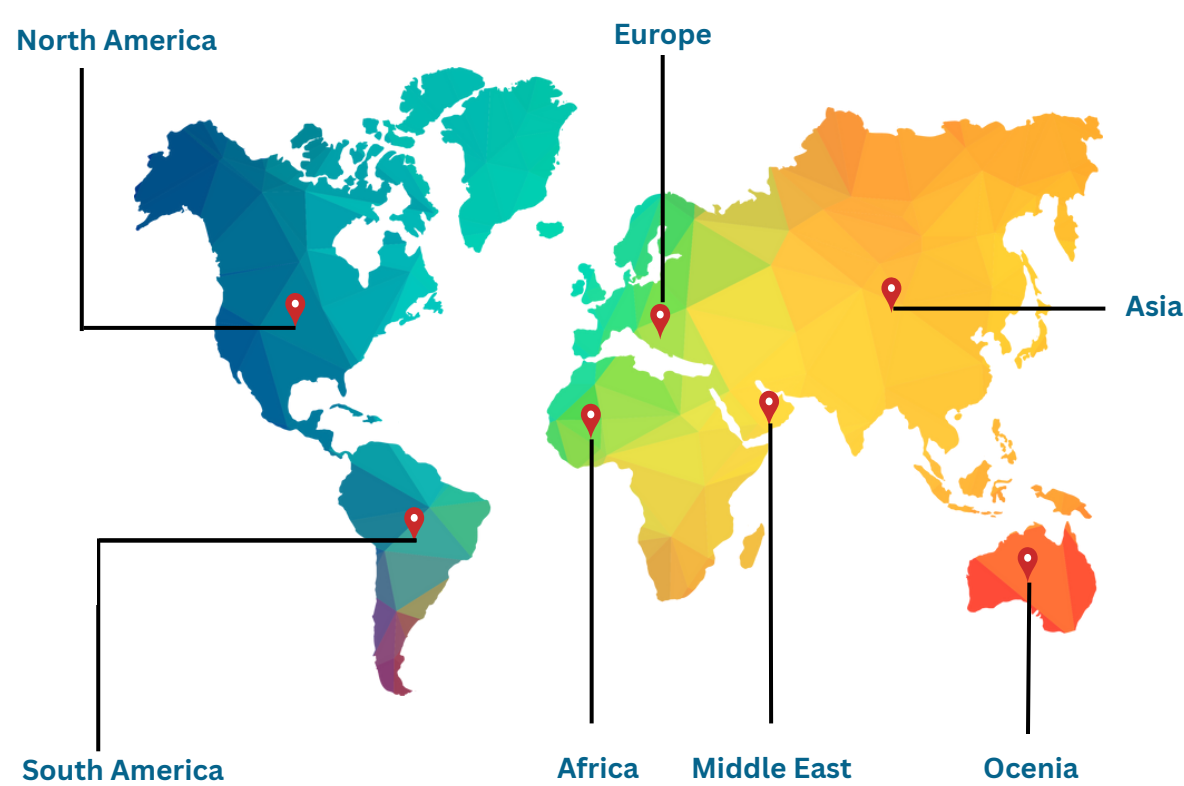
### **Subsidiary Company**

This kind of company is organized as a separate legal entity, having a flexible relationship with the parent company. Subsidiary companies in Japan have a greater legal authority of acting independently than branches and can assume liabilities separately from the parent company. To form a subsidiary company in Japan, a foreign company requires to appoint a representative in Japan.

### **The liaison office**

A liaison office in Japan can be established by an international corporations who want to effectuate a market research before opening a trading business entity or a branch or subsidiary. It can be established without any type of notification or registration with the Japan authorities.

## SERVING CLIENTS WORLDWIDE



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