



Business Guidebook in Japan

May 2022

Global Inbound Group,
Deloitte Tohmatsu Corporate Solutions



Shinichi Takenaka

Climate Change/ESG Assurance Leader & Global Inbound Group (GIG) Leader

Partner, Deloitte Touche Tohmatsu LLC

Shinichi Takenaka joined Deloitte Japan in 1999 and he has built up great overseas achievements in both UK and Australia. In 2008, Shinichi transferred to the Perth office of Deloitte Australia and was responsible for the statutory audits as an audit partner. Shinichi transferred to the Sydney office in 2015 and promoted M&A and technology projects collaborating with the financial advisory, consulting and tax departments as Japanese Service Group Leader in Australia. In 2020, he moved to Deloitte Japan again. He currently leads climate change and sustainability services in A&A and he also serves as the Global Inbound Group (GIG) Leader for Deloitte Tohmatsu Group.

Message from the Global Inbound Group (GIG) Leader

Total support for foreign companies developing business in Japan

Following globalization in recent years, more foreign companies are developing business in Japan, which has also led to further development of an investment environment to accommodate this trend. Japan should welcome foreign companies entering Japan from the perspective of vitalizing the economy and employment. However, there are regulations particular to Japan as well as risks lying beneath the surface when going about doing business.

Global Inbound Group (GIG) has gathered the essential knowledge for foreign companies to develop business in Japan by working with Deloitte Tohmatsu Group firms in addition to Deloitte in many other countries.

To resolve the issues that arise when facing each stage of entering the market and to meet the needs of different industries, we use Deloitte Tohmatsu's capability to offer a one-stop MDM support (A&A, RA, CON, FA, and T&L-those 5 businesses integrated service) for smoothly developing business in Japan.

The Guide for Investing in Japan lays out appropriate processes and approaches that foreign companies need to consider when entering the Japanese market. I hope that this guide provides reference for every foreign company developing business in Japan by considering all business perspectives.

Global Inbound Group (GIG)

The Global Inbound Group (GIG) is a specialist group established to respond to the various needs of foreign companies developing business in Japan. By going through GIG, company can access Deloitte's various inbound-related businesses in one stop.

Contact to Global Inbound Group

gig_pmo@tohmatu.co.jp



Contents

Investments	07
I. Investment environment in Japan	07
01. Trends in foreign direct investments in Japan	07
02. Benefits of investing in Japan	10
03. Initiatives by the Japanese government to promote direct investments in Japan	12
04. Prospective industries for investment in Japan	19
05. Summary	21
II. Things to consider when expanding into Japan	22
01. Purpose of expansion	22
02. Expansion conditions	22
03. Industries that are regulated in Japan	22
04. Business operating costs	22
05. Types of expansion	22
06. Employment	22
07. Tax policies	23
08. Accounting policies	23
09. Work-related visa and status of residence in Japan	23
III. Regulations on foreign investors investing in Japan	26
01. Regulations by the Foreign Exchange Act	26
02. Foreign capital regulations for specific industries	29
03. Investment agreements with China	31
IV. Choosing how to expand into Japan	32
01. Whether sales activities will be conducted	32
02. Entity bearing responsibility in the case of legal action	34
03. Tax treatment	35
04. Amount of capital	37
V. Establishing a Japanese corporation	40
01. Establishing a Japanese corporation	40
02. Opening a sales office (Japanese branch)	53
03. Establishing a representative office	54

VI. Operating a company	56
01. Corporate organ	56
02. Hiring employees	62
Taxation	71
I. Outline of tax policies	71
01. Types of taxes	72
02. Corporate tax costs	74
03. Personal and other tax costs	75
II. Taxes levied on corporate income	76
01. Corporate tax	76
02. Local tax	98
III. Taxes levied on personal income	101
01. Taxable types of income	102
02. Tax rates for comprehensive taxation and separate taxation	102
03. Special reconstruction income tax	105
04. Total profit and loss	105
05. Net losses carried forward	106
06. Items not taxed for salaried employees (main related items)	106
07. Withheld tax and year-end adjustment	107
08. Income tax return	109
09. Personal resident tax	110
IV. Departure tax	112
01. Taxable persons	112
02. Taxable assets	112
03. Taxation standards, tax rate, declaration and payment process	112
04. Other points of note	113

Contents

V. Consumption tax	113
01. Deciding if there is a need to pay taxes	113
02. Selecting whether to become a taxable person	115
03. Outline of types of transactions for consumption tax	117
04. Understanding the tax payment schedule	117
05. Others	118
06. Consumption tax levied in relation to the provision of cross-border roles	118
VI. Other taxes	119
01. Taxes levied on fixed assets	119
02. Taxes levied on vehicles	121
03. Environmental performance levy (Automobile acquisition tax was abolished)	122
04. Stamp tax	122
05. Office tax	123
Accounting	122
I. Outline of accounting	124
01. Outline	124
02. Regulations of the Companies Act and Financial Instruments and Exchange Act	124
03. Timely disclosure regulations in each market	126
04. Structure of financial statements	126
05. Accounting standards	127
Listing on an exchange	131
III. Overview of the initial listing and disclosure systems	134
01. Overview	135
02. Listing examination by TSE (primary listing)	137
03. Financing upon listing (public offering or secondary offering)	143
04. Restructuring the Market Segments	144

Investments

I. Investment environment in Japan

01. Trends in foreign direct investments in Japan

The economy became increasingly more globalized in the 1990s, with the rise of China and other rapidly emerging powers. However, the economic bubble in Japan had burst and the ensuing downturn in the Japanese domestic market became a big issue. Within such an environment, the Japanese government started taking action to promote foreign direct investments in Japan as one of its economic stimulus measures. In 1994, the Japan Investment Council was established, with the Japanese Prime Minister as the council Chair and the Minister of State for Economic and Fiscal Policy as the Deputy Chair. An expert committee was also established. Under the leadership of this council, progress was made on tax reforms, increasing land/human fluidity, and creation of various government-led policies and programs related to M&As. The low share price of Japanese businesses caused by Japan's poor financial situation and deflation also added an external factor, creating an environment which made it easy for foreign entities to acquire Japanese businesses. This resulted in a significant increase in foreign direct investments in Japan from the latter half of 1999.

Entering the 2000s, the Japanese government shifted research and planning functions for foreign direct investments in Japan from the Economic Planning Agency to the newly established Cabinet Office, further promoting foreign direct investments in Japan. In 2003, the Prime Minister at the time announced that "Japan will double its 2001 year-end investment balance of 6.6 trillion JPY in five years by 2006" in his government policy speech. The Program for Promoting Investments to Japan was created as a specific initiative, containing (1) revisions to

administrative processes, (2) adjustments to the business environment including facilitating M&As, (3) adjustments to the hiring and living conditions, (4) support by the federal government for regional areas to build a framework for inviting foreign direct investments, and (5) actively releasing information both domestically and internationally as its measures. By the end of 2006, they had pretty much achieved their goal with an investment balance of 12.8 trillion JPY. In 2006, the Japan Investment Council launched the Program for Acceleration of Foreign Direct Investment in Japan to further promote foreign direct investments in Japan. In 2007, it was agreed that cabinet meetings and related ministerial meetings should be held as necessary to address these matters, and the Council was disbanded.

The Expert Committee on FDI Promotion was established in 2008 after the Japan Investment Council was disbanded to overcome the problem that there was no growth in foreign direct investments in Japan due to the bankruptcy of Lehman Brothers. The Expert Committee on FDI Promotion met with the purpose of investigating the specifics of promoting foreign direct investments in Japan, including the reasons and structural background as to why foreign direct investments in Japan were not growing, and provided the Five Recommendations Toward the Drastic Expansion of Foreign Direct Investment in Japan to facilitate M&As, such as the creation of various government-led policies and programs, reduction of business costs, and increasing transparency. A new Program for Acceleration of Foreign Direct Investment was created based on the Five Recommendations, and foreign direct investments in Japan steadily grew as the result of progress made on measures such as (1) region-oriented economic growth

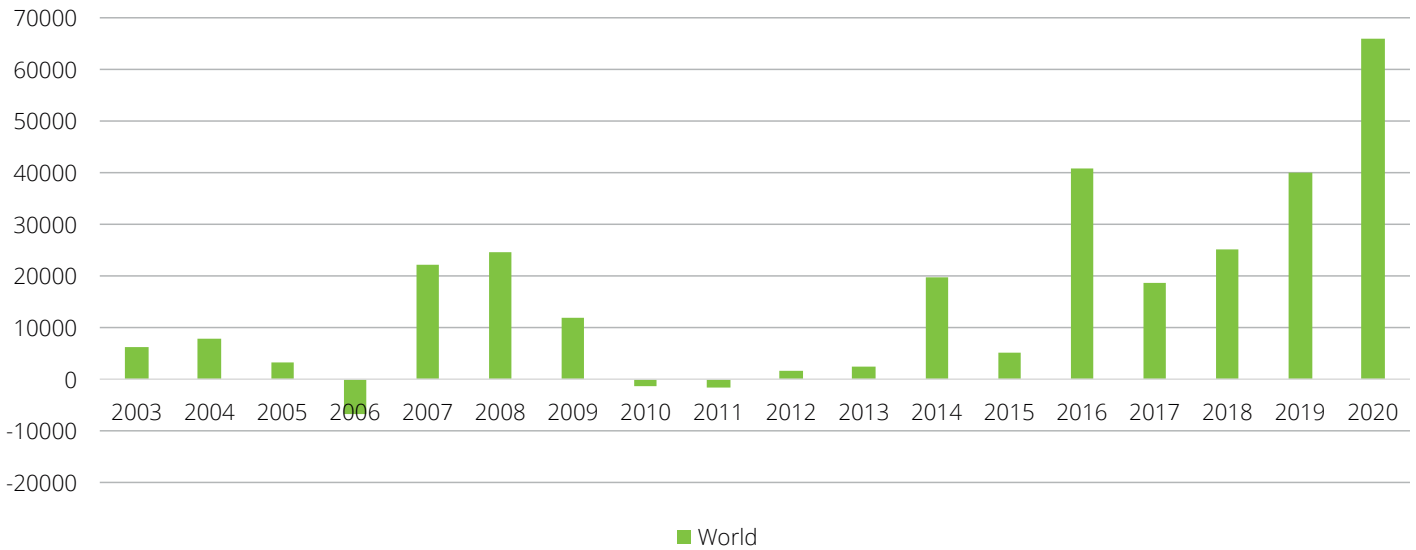
and quality-of-life improvement, (2) building of an investment environment capable of overcoming global competition, and (3) extensive domestic and overseas publicity. By the end of 2011, the investment balance in Japan reached 17.5 trillion JPY (valuated according to the conditions of that time).

In addition, the New Growth Strategy was decided upon in a cabinet meeting in June 2006, with the goal of "doubling the flow of people, goods, and money into Japan in the next 10 years". To realize the Strategy, the Program for Promoting Japan as an Asian Business Center and Direct Investment into Japan was created with the following three targets to achieve by 2020: (1) increasing the number of high-value-added sites (Asia Regional Headquarters and research and development facilities) by 30 each year by luring foreign direct investments, (2) increase the number of employees of foreign affiliates from about 0.75 million in 2006 to 2 million by 2020, and (3) doubling the foreign direct investment balance from 17.5 trillion JPY in 2011 to 35 trillion JPY by 2020. Specific measures include (1) the establishment of the Subsidy Program for Projects Promoting Asian Site Location in Japan, (2) allowing areas recognized as Comprehensive Special Zones such as International Strategic Comprehensive Special Zones and Local Vitalization Comprehensive Special Zones to be exempt from regulations, as well as providing these areas with tax, fiscal, and financial incentives, and (3) developing frameworks for supporting investment by foreign businesses.

The result of these actions led to the recovery of foreign investments in Japan starting from 2012 after the net outflow period between 2010-2011, spurring significant growth over the period of 2012-2020 with 57.3% CAGR, with total inward FDI reaching 65.977 million USD in 2020.

Figure 1-Japan's Inward FDI

Japan's Inward FDI (Global Total)
 USD million, at the end of each year



(Source: JETRO home page <https://www.jetro.go.jp/en/reports/statistics/>)

Note: "-" (minus sign) indicates net outflow

The US, the UK, Hong Kong, Singapore, and China are the top 5 contributors to inward FDIs towards Japan. The US contributes 48.3% out of the total inward FDI, followed by the UK with 7.9%, Hong Kong at 6.4%, Singapore at 5.4%, and China at 5.3%. See Figure 2 for more information on the top 10 contributors of Japan's inward FDI. In terms of investment targets, finance and insurance takes the top spot, followed by electric machinery, transportation equipment, chemicals & pharmaceuticals, as well as services. The breakdown of FDI amount per industries can be seen in Figure 3.



Figure 2–Japan’s Inward FDI – Top 10 countries and regions (100 million Yen, %)

2020 ranking	Investor country region	Change in Ranking	2020	2020 YoY
1	UK	↗	32,674	969.9
2	US	↘	22,605	21.1
3	Switzerland	↗	7,610	704.4
4	Singapore	↘	5,462	98.3
5	China	→	1,434	-31.5
6	France	→	1,398	-19.5
7	Hong Kong	↘	1,239	-45.4
8	Netherlands	↗	1,215	-
9	Thailand	→	1,080	-4.8
10	Germany	↗	819	235.7
-	World	-	70,581	61.8

(Source: Balance of Payments (MoF, BoJ))

Figure 3–Japan’s Inward FDI – Top 10 industries (100 million Yen, %)

Ranking	Change in Ranking	Sector	2020 YoY	Share
1	Finance & Insurance	12,445	-3.7	113.7
2	Transportation Equipment	1,992	-18.4	18.2
3	Services	1,950	38.1	17.8
4	Electric Machinery	325	-90.4	3.0
5	Transportation	256	-	2.3
6	General Machinery	254	-	2.3
7	Glass & Ceramics	243	-	2.2
8	Petroleum	77	-	0.7
9	Textile	40	44.8	0.4
10	Iron, Non-Ferrous & Metals	35	-70.2	0.3
-	Chemistry, Pharmaceuticals	-2,227	-	-
-	Wholesale, retail business	-4,004	-	-

(Source: Balance of Payments (MoF, BoJ))

Note: “-” (minus sign) indicates net outflow

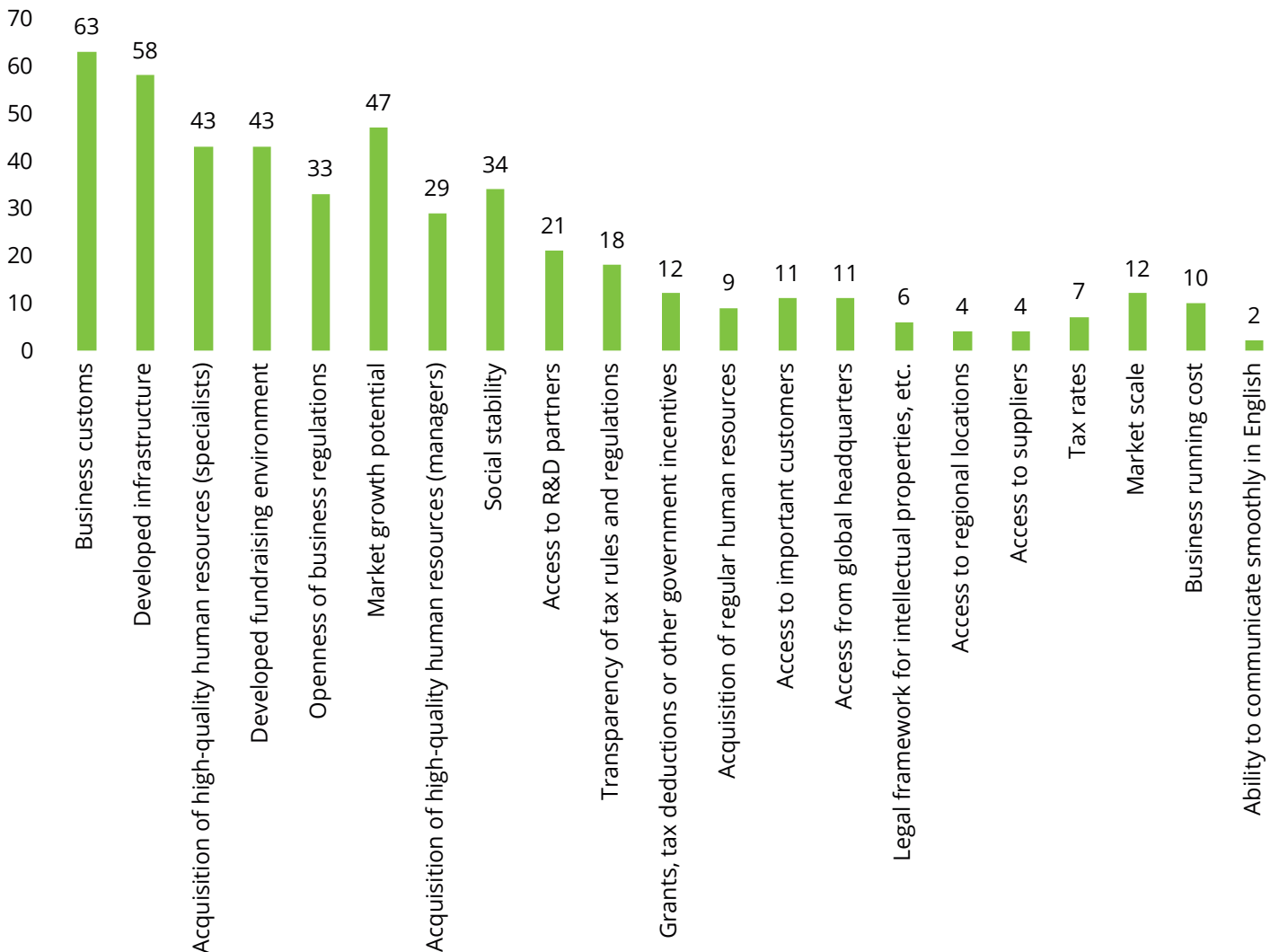
02. Benefits of investing in Japan

Foreign direct investing in Japan is growing steadily, and the points below demonstrate some of the benefits foreign companies gain by investing and doing business in Japan.

According to the Survey on European, American, and Asian Interest in Investing in Japan (March 2018) by METI, Japan placed first for R&D locations and third for financial, logistics, and manufacturing locations when foreign companies were asked about the most attractive Asian countries and regions for investment by business location type. Foreign companies from Europe, America, and Asia also listed Japan's (1) business customs, (2) developed infrastructure, and (3) acquisition of high-quality human resources (specialists) as strengths of the country's business environment. Other strengths mentioned include a developed fundraising environment, market growth potential, and social stability. On the other hand, these companies listed ability to communicate smoothly in English, business running cost, and market scale as the top three weaknesses of the Japanese business environment.

Figure 4—Strengths of Japan's business environment

Strengths and weaknesses of Japan's business environment



(Source: METI Survey on European, American, and Asian Interest in Investing in Japan [March 2018])

Although China surpassed Japan in terms of its gross domestic product (GDP) in 2010, Japan still maintains the third-place rank globally, making it a prominent market with four times the GDP per capita of China (as of 2018). For comparison, the GDP of the Kanto region surrounding Tokyo alone is enough to rival that of Russia or Brazil. Japanese consumers also demand high standards for products and services, making Japan a hot spot of home appliance and fashion trends in Asia and a suitable location for many global companies to conduct test marketing in Asia.

Japan's social and political environment is also relatively stable compared to other Asian countries and can be said to be a market with very low country risk. It also has access to a low-cost and stable IT infrastructure, such as broadband or fiberoptic internet, in addition to basic infrastructure such as electricity, gas, and waterworks. Japan also has low crime rates and good access to medical care, with ample regulations for protecting intellectual property. This provides an environment where both Chinese and other foreign companies can reliably roll out their business.

In addition, Toyota, Panasonic, Canon and other global companies, as well as many of the SMEs that support these companies with their advanced technologies, are gathered in Japan. This provides a great incentive for international companies looking to expand into Japan, as this allows them to conduct business with global companies, as well as establish relationships with the SMEs and their advanced technologies.

Japan also boasts one of the highest GDP percentage spent on science and technology R&D, as well as number of

researchers per 10,000 members of the population, with many talented technicians. There are moves by international companies to establish their R&D locations for Asia in Japan, and going forward, Japan's geographic proximity to growing dominance of technological advancement in China can also be expected to play a part for the country to be a strong candidate for establishing R&D locations by Chinese businesses, providing opportunities for other foreign countries to establish indirect stronger partnerships/relationships with both Japan and China as Asian economic powerhouses in the process.



03. Initiatives by the Japanese government to promote direct investments in Japan

Pre-pandemic developments

As mentioned above, the Japanese government has taken several initiatives in the past to promote foreign direct investments in Japan and is currently still doing so.

December 2012 marked the beginning of Prime Minister Abe's second term in office, upon which the three basic policies of a bold financial policy, a mobile fiscal policy, and a growth strategy that stimulates private investment, were launched in rapid succession to resolve the lack of domestic demand and overcome the country's deflation. This resulted in the achievement of a record high for business revenue as well as expansion of employment, interpreted as signs of economic recovery. These policies were dubbed "Abenomics" and garnered much attention.

The Japanese government decided that more investments from overseas should be invited to positively stimulate the Japanese economy, and the Cabinet agreed on Japan Revitalization Strategy 2015 and launched the Reform 2020 project in 2015. The Olympics and Paralympics, two large-scale events, are also being used as an opportunity to enter the second stage of Abenomics and put even greater efforts to invite foreign direct investments in Japan, under the basic policy of broadening investments and increasing added value via innovation.

Japan Revitalization Strategy 2015 sets the goal of doubling Japan's 2012 year-end foreign direct investment balance by 2020 (from 19.2 trillion JPY to 35 trillion JPY). The Japanese government has issued policies such as (1) strengthening the effort to make Japan appealing as an attractive investment destination, (2) establishing a framework to invite/support foreign direct investments in Japan, and (3) improving the domestic business environment to achieve this goal.

First, the government is not only leveraging large-scale events, like the World Forum on Sports and Culture held in conjunction with the 2016 World Economic Forum, the 2020 Tokyo Olympics and Paralympics, and venture summits held globally to make

Japan appealing to foreign companies, but it has also established a wide network of mutual cooperation with regional governments with strong motivation or regional appeals to invite foreign investment to help them market their region to top-level executives.

Next, in establishing a framework to attract and support foreign direct investments in Japan, the Japanese government decided to launch the Council for Promotion of Foreign Direct Investment in Japan on April 25, 2014, hosted by the Minister of State for Economic and Fiscal Policy, to survey overseas businesses about their needs and hold meetings with the appropriate cabinet members and ministers for the purpose of carrying out reforms that will lead to an improved environment for foreign direct investments in Japan. The Invest Japan Business Support Center (IJBSC) was also established in the Japan External Trade Organization (JETRO) in May 2013 as a comprehensive source for providing investment-related information, such as establishing a company, conducting M&As, or establishing a factory or store, with the goal of supporting foreign direct investments in Japan. Furthermore, the funds for risky investments were doubled by strengthening cooperation with the Asian Development Bank and strengthening the functions of the Japan Bank for International Cooperation.

In June 2018, the Japanese government created the project-based Regulatory Sandbox framework, establishing an environment that allows organizations to conduct demonstrative experiments on innovative technologies and business models without being bound by existing regulations. A cabinet decision in June 2018 also launched the Growth Strategy 2018, which aimed to enable online processing of company establishment procedures within 24 hours by 2019.

Pandemic-period/Tokyo Olympics (2020-2021)

Fast forward to the current year of 2021, there are significant changes occurring globally due to the dawn of the COVID-19 pandemic which is spurring significant changes for Japan in 2 aspects: (1) changes in the ruling governmental figure and supporting structures; (2) delays of

planned large events (Olympics). First off, the previous PM, Shinzo Abe, has stepped down from the role and was replaced with Yoshihide Suga. Following the change, the cabinet structure has also experienced significant changes. Given the current PM and the cabinet is appointed amidst the pandemic situation, the primary focus of government initiatives has been to maintain economic security and welfare of citizens, whereas international trade and foreign investments took a back seat. Secondly, as a result of diminishing international engagement during the pandemic due to concern of the spread of COVID-19, many large international events were delayed including the Olympics and Paralympics 2020, which has been pushed back to 23 July–8 August 2021. There were intense debates regarding the benefits and trade-offs of continuing to hold the Olympic and Paralympic Games, given the sunk cost and potential loss of economic growth should the event be cancelled versus the potential of the further spread of the COVID-19 virus, which will negatively impact the country.

The Tokyo government initially estimated that the Olympic and Paralympic Games would directly generate economic benefits for Tokyo of 1,979 billion JPY. Of this figure, 350 billion JPY was expected to come from the construction of new permanent facilities (including city facilities and the new National Athletic Stadium), which would add to GDP whether the Olympics were held or not. The remaining 1,629 billion JPY will depend on whether the Games are held and on what sorts of limitations are placed on spectators. Subsequent events further affected the potential economic benefit. First, the Games were postponed by one year, resulting in additional expenditures. Second, the delay prompted a number of cost-cutting measures. Third, it was decided in March 2021 that foreign spectators would not be allowed to attend. Finally, there was additional spending on measures to prevent COVID-19 infections at the Games. As a result, the adjusted economic benefit diminished from 1,979 billion JPY to 1,811 billion JPY with the following breakdown. This represented about 0.3% of Japan's annual GDP.

Figure 5 – Economic benefit from holding Tokyo Olympic and Paralympic Games (billion JPY)

Cost of holding Games	1,207.0
Construction of temporary facilities	389.0
Energy Infrastructure	97.0
Transportation	98.0
Security	89.0
Technology	121.0
Operations	193.0
Administration & PR	84.0
Marketing	136.0
Other economic impacts	507.8
Ticket Sales	90.0
Consumption expenditure by spectators	56.8
Purchases of related products & TVs	291.0
International broadcast production and transmission costs	33.5
Corporate marketing activities	36.5
COVID-19 countermeasures	96.0
Total	1,810.8

Source: Nomura Research Institute, Tokyo Metropolitan Government and Tokyo Organizing Committee data

While holding the Games will benefit the country, the amount is much less than the adverse economic impact to the country resulting from the states of emergency during the pandemic period, with each state of emergency accounting for 3-4 trillion JPY losses to the country. The Tokyo stock market has underperformed in recent months, hurt by the combination of slow vaccine rollouts, a fresh outbreak of infections and growing concerns about the risks of staging the Olympics in the midst of a once-in-a-century pandemic. Concerns of an uncontrolled pandemic overcame the potential benefit of holding the Games from a foreign investment perspective. Foreign investors' confidence in Japan's economy has been diminishing due to growing concerns about Japan's inability to realize quick recovery and political instability as people's confidence towards Suga's leadership is waning. For example, foreign investors sold more than 1 trillion yen (\$9.20 billion) of Japanese stocks in net during the second week of May 2021, the biggest since March 2020. The Nikkei stands around 27,670 in July 2021, more than 7% below its 30-year high of 30,714 with a downward trend.

The primary method to attract foreign direct investment in the current pandemic is for the government to curb further infections and ensure recovery from the pandemic, which will trigger confidence from foreign investors.

Semi-post-pandemic period (2022 onwards)

Coming out from the peak of the pandemic period in 2020-2021, the government is preparing for a post-pandemic economic environment with two primary agenda items: accelerate digitalization and carbon neutrality adoption across sectors.

As part of this agenda, the government doubled down on its effort to promote foreign direct investment in Japan, with revised strategies stipulated along with the new targets at the Council for Promotion of Foreign Direct Investment in Japan on 2 June, 2021; this has three pillars:

- 01. Creating a new digital green market and building innovation ecosystems
- 02. Accelerating the development of business environments in response to global changes
- 03. Developing investment grounds through public-private partnerships utilizing regional strengths

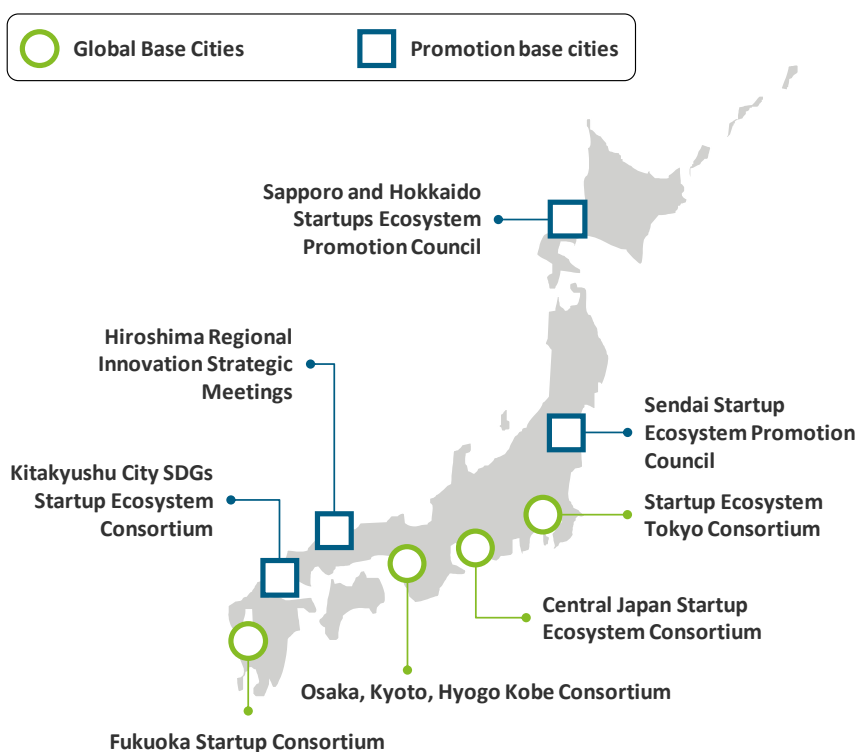
As part of the effort to achieve the newly set objectives, the government enacted the following strategy:

a. Formation of hub cities for international startup ecosystems

In July 2020, the Cabinet Office selected eight cities—four global startup cities and four domestic startup cities. The eight cities involve eighteen local governments which provide intensive support for startups located in these municipalities over a three-year period.

Figure 6 – Startup ecosystem base cities

Strategy 1	Formation of start up ecosystem base cities
Strategy 2	Strengthen ecosystems centered on universities
Strategy 3	Providing world class Acceleration Programs*
Strategy 4	Promoting Gap funds** for each startups
Strategy 5	Government and municipalities to encourage challenges as customers of startups
Strategy 6	Enhancement of ecosystem networks and fostering momentum
Strategy 7	Increasing the mobility of R&D human resources



b. Promoting Super City initiative

Based on a revision of the National Strategic Special Zones Law which came into effect in September 2020, the institutional framework for the Super City initiative was set up. The Super City initiative strives to improve citizens' welfare and lives through the utilization of cutting-edge technologies such as AI, big data, advanced analytics, machine learning, IoT, across sectors, such as transportation/mobility, education, and healthcare.

The public invitation for proposals on the Super City initiative, which was closed on April 16, 2021, resulted in the applications of 31 municipalities. Further assessment of these municipalities is still ongoing, yet it indicates the high interest of Japanese local governments in supporting startups and innovative businesses.

c. Revision of tax deduction system for Research & Development (R&D tax credit system)

METI has implemented a revision as part of tax reforms to incentivize companies that promote R&D investments. The revised tax system allows companies to deduct 2-14% of their R&D expenditures from corporate tax amount.

d. Acceleration for digitalization and green technologies

d1) Six bills for promoting digitalization

The Digital Agency was established on September 1, 2021 as part of the digital reform initiative and showcases the government's effort to foster and accelerate the adoption of digitalization across industries, including the migration of governmental and administrative procedures online. Alongside the establishment of the Digital Agency, the government enacted five other bills in May 2021 to support the growth of digitalization, bringing a total of six digital reform bills released in 2021.

Figure 7 – 6 Digital Reform Bills 2021

Act on the Establishment of the Digital Agency	Established in September 2021 with about 600 members
Basic Act on the Formation of a Digital Society	Formulate a basic policy for the Government's IT policy with the aim of strengthening Japan's international competitiveness and improving convenience for the people
Act on Deposit and Savings Account Registration for Receiving Public Money	Establish a system that allows for advance registration of deposit accounts for receiving benefits.
Act on Deposit and Savings Account Management	Create a system that links accounts and My Number to enable account inquiries at the time of a disaster or inheritance
Act on the Arrangement of Related Acts for the Formation of a Digital Society	Integrate the three laws on Personal Information Protection, which are enacted respectively for the private sector, administrative organs and independent administrative agencies. Remove seal requirements in administrative and private procedures
Act on the Standardization of Local Government Information Systems	Promote the unification of the administrative systems between the national and local governments.

Source: JETRO

Accompanying the bills, the government promotes the unification of administrative systems for local and national governments as well as deregulates online medical treatment and digital education.

d2) Establishment of Digital Transformation (DX) investment promotion tax system

METI also introduced incentives for DX investment for corporations in its tax reform. The revised tax system allows for the deduction of corporation tax on the following two items:

- 3% of the acquisition price for DX-related businesses (5% in some acquisition cases where the data of the acquired business is being released outside of the acquiring group entity, e.g., businesses where the data is public)
- 30% depreciation for DX-related investments, specifically the ones utilizing cloud technology

d3) Moves towards realization

The third element of METI's tax reform is to incentivize carbon neutrality across corporations. Under the revised tax system, a tax credit of 10% or special depreciation of 50% will be applied for the following cases

- Production facilities for fuel cells, compound power semiconductors and other products with considerable decarbonization impacts
- Facilities that achieve decarbonization of production processes as well as improving their added-value capabilities, such as introducing state-of-the-art technologies

Furthermore, METI and NEDO (New Energy and Industrial Technology Development Organization) jointly established the "Green Innovation Fund Project" with 2 trillion JPY funding aimed at providing support for R&D and social implementation of green technologies for the next 10 years.

d4) Formulation of semiconductor and digital industry strategy

As part of the "Semiconductor and Digital Industry Strategy Review" in March 2021, METI has introduced policies to promote investments in cloud technologies, data centers, and semiconductors – with the aim to support the infrastructure required to realize the goals of accelerated digitalization and carbon neutrality adoption. METI is drafting a subsidy system for semiconductor-related capital investments, in order to establish a stable

semiconductor manufacturing system in Japan.

e. Strengthening efforts to attract foreign financial institutions in Osaka and Fukuoka in addition to Tokyo

The "Global Financial City: Tokyo Concept 2.0" strategy was formulated in November 2021 to improve Tokyo's status as a global financial hub. New concepts introduced in the revised strategy include a green finance market (e.g., green bonds), cashless society, fin-tech ecosystem incubation, and initiatives to increase labor and experts in financial markets.

Alongside this, similar efforts have been made in Osaka and Fukuoka.

The International Finance City OSAKA Promotion committee was established on March 29, 2021. In July 2021, the committee released a draft strategy which calls for a startup fundraising support system and financial services de-regulation.

TEAM FUKUOKA was launched in September 2020 by the Fukuoka prefectural and city government through collaboration with educational institutions such as Kyushu University and local companies such as Kyushu Electric Power and National Japan Railway. Efforts were made to attract foreign finance companies, with two companies establishing bases in Fukuoka so far – MCP Holdings from Hong Kong (February 2021) and Capbridge Financial from Singapore (April 2021).

JETRO's role in promoting foreign direct investments

JETRO is a core institution for promoting foreign direct investments in Japan, and is responsible for (1) distributing information on the Japanese business environment, (2) approaching foreign businesses showing an interest in making direct investments in Japan through its overseas offices (offices in China: Guangzhou, Chengdu, Shanghai, Dalian, Qingdao, Beijing, Wuhan, Hong Kong), (3) providing individual consultation on topics such as market research and business model creation in collaboration with internal and external specialists, (4) providing support for foreign businesses to establish a site in Japan, such as offering temporary offices free of charge, (5) providing support for regional expansion (secondary investment) for foreign capital-

based businesses which have already expanded into Japan, (6) supporting regional governments with their activities to invite investments, and (7) handling administrative work related to the Subsidy Program for Projects Promoting Asian Site Location in Japan mentioned above.

In recent years, given the growing number of cases in which foreign capital-based businesses choose regions outside Tokyo when expanding into Japan, JETRO has also created the Regional Business Support Navigator on its website to provide information on the industries of each region in Japan, their appeal and scale, R&D organizations, incentives for investment, and infrastructure.

Up to now, JETRO has created special zones, in which existing "rock-hard" regulations are loosened and corporate tax is reduced. The effective corporate tax rate in these zones has been brought down to around 20% over several years starting from 2015, as measures to improve the domestic business environment.

As of 2019/2020, JETRO has been running the following initiatives to promote foreign direct investments in Japan.

01. Investment Advisor Assignment System

The Investment Advisor Assignment System is a system where a foreign company making an important investment in Japan and fulfilling certain requirements can apply to have the State Minister (or person of similar position) of the ministry to which the company's main business category belongs assigned as an advisor.

The following are the mandatory requirements which must be fulfilled (based on January 2016 application requirements which are still valid and unchanged):

- The company must have made a direct investment worth 20 billion JPY or more in Japan and have at least 500 employees under regular employment in Japan.
- The company must operate in one of the strategic areas listed in the Strategic Market Creation Plan under the Japan Revitalization Strategy and be practicing sound business activities.
- The company must have the potential to contribute to the stimulation of the Japanese economy through the introduction of new business models or the R&D of cutting-edge technologies into Japan.

02. National Strategic Special Zones

National Strategic Special Zones are special economic zones created as breakthrough points for reforming "rock-hard" regulations. By allowing exceptions to regulations in fields such as healthcare, employment, agriculture, education, and employing foreign talent, these zones enable businesses that would otherwise be restricted to operate, promoting private and foreign investments. Additionally, under the National Strategic Special Zone Council, the Tokyo One-Stop Business Establishment Center was established within the JETRO headquarters to consolidate the various procedures required in establishing foreign

capital-based companies or start-up companies. The Center opened on April 1, 2015.

Currently, 10 National Strategic Special Zones have been created, such as the Tokyo area as the site for international businesses and innovation, the Kansai area as the site for medical innovation as well as support for talent with disabilities, and Hiroshima Prefecture as well as Imabari city in Ehime Prefecture as the special zones for carrying out international exchange and making use of big data. As the various zones have different focuses regarding regulatory reform, it is recommended that the detailed agendas be checked from the Cabinet Office homepage.

03. Comprehensive Special Zones

Comprehensive Special Zones are special zones where regional governments proactively propose to the national government their regions' strengths and reforms to invite foreign investments. This type of special zones allows regional governments to customize the set of support they can receive, in terms of exceptions for regulations as well as special tax, financial, and monetary measures. These zones mostly consist of two types: (1) International Strategic Comprehensive Special Zones and (2) Regional Revitalization Comprehensive Special Zones.

International Strategic Comprehensive Special Zones have the goal of becoming an engine for economic growth by serving as a site where industries and functions converge. On the other hand, Regional Revitalization Comprehensive Special Zones aim to increase regional strength by leveraging local resources to their greatest extent. Special exceptions for regulations, lower corporate tax, financial support, and subsidized interest programs are granted to each designated zone.

04. Establishment of innovation ecosystem to realize Society 5.0

Open innovation ecosystem establishment is one key program contained within "2019 Growth Strategy" which constitutes mobilizing all forces of "Industry," "Government"

and "University" in order to achieve the realization of Society 5.0. In establishing such ecosystem, developing a conducive business environment friendly to startups and innovative business entities from around the world is paramount. As such, JETRO, working with METI, related central government offices, and local governments, actively provides concentrated assistance to selected cities by inviting foreign entrepreneurs to the cities, provide financial and tax incentives for establishment of businesses in the cities, collaborating with leading global accelerators to establish a presence in the cities, hold international conferences focused on innovations, and other efforts.

05. Smart public service to improve ease of business

The "Act of Digital Procedure" was enacted in May 2019 in order to improve convenience in administrative procedures through utilization of IT technologies. Primary measures included within this initiative are as follows: (1) Digital first approach (each procedure/service will require completion through electronic means); (2) Connected information (information that has already been submitted will be recorded in a central database and does not require re-entry across industries and functions); (3) online one-stop service for all business-related activities (including incorporation, court procedures, trade administrations, etc.)

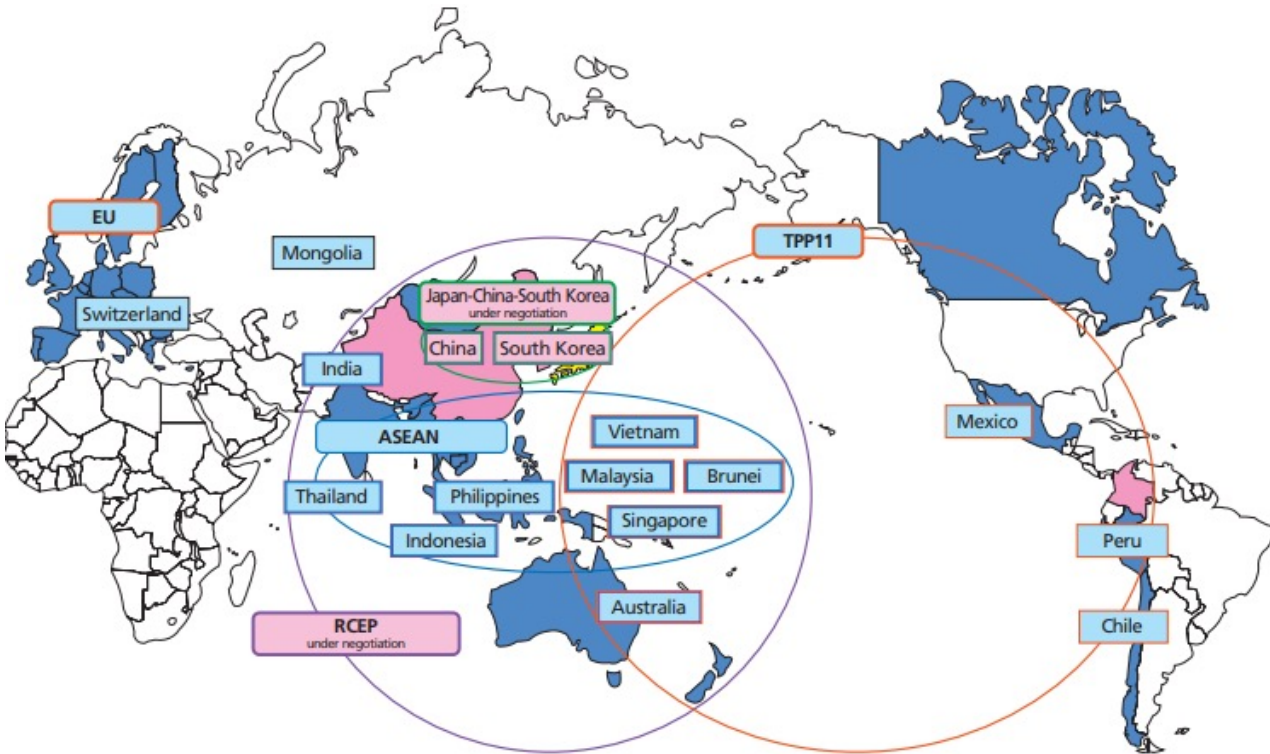
06. Promote active participation of foreign professionals in Japan

JETRO promotes more participation of foreign professionals and entrepreneurs domestically through several measures: (1) Simplification of entry requirements and processes for highly skilled foreign professionals; (2) Provision of residence status to foreign companies who enter Japan with JETRO support based on inward FDI scheme; (3) Develop a one-stop portal which informs foreign professionals on related initiatives and events that enables them to actively participate in Japan's economy such as startup/innovation conferences

07. Active participation in Economic Partnership/Free Trade Agreements

JETRO plays a crucial role in Japan’s aim to strengthen its economic relations through economic partnership agreements (EPAs) and free trade agreements (FTAs). So far, Japan has been part of 17 EPAs/FTAs, making significant progress towards reductions/abolition of tariffs as well as liberalization and transformation across sectors such as services, government procurement, intellectual property, and multi-lateral/bilateral investments. Notable agreements are the Mega-FTAs such as TPP11 (Trans-Pacific Partnership), which took effect in December 2018 and Japan-EU EPA, which took effect in February 2019. Additionally, the Japan-US Trade Agreement and Japan-US Digital Trade Agreement were confirmed and signed in October 2019.

Figure 8–EPAs/FTAs in which Japan is involved



Source: JETRO

08. Additional measures to promote inward FDI to Japan

Additional measures can be seen on the following chart

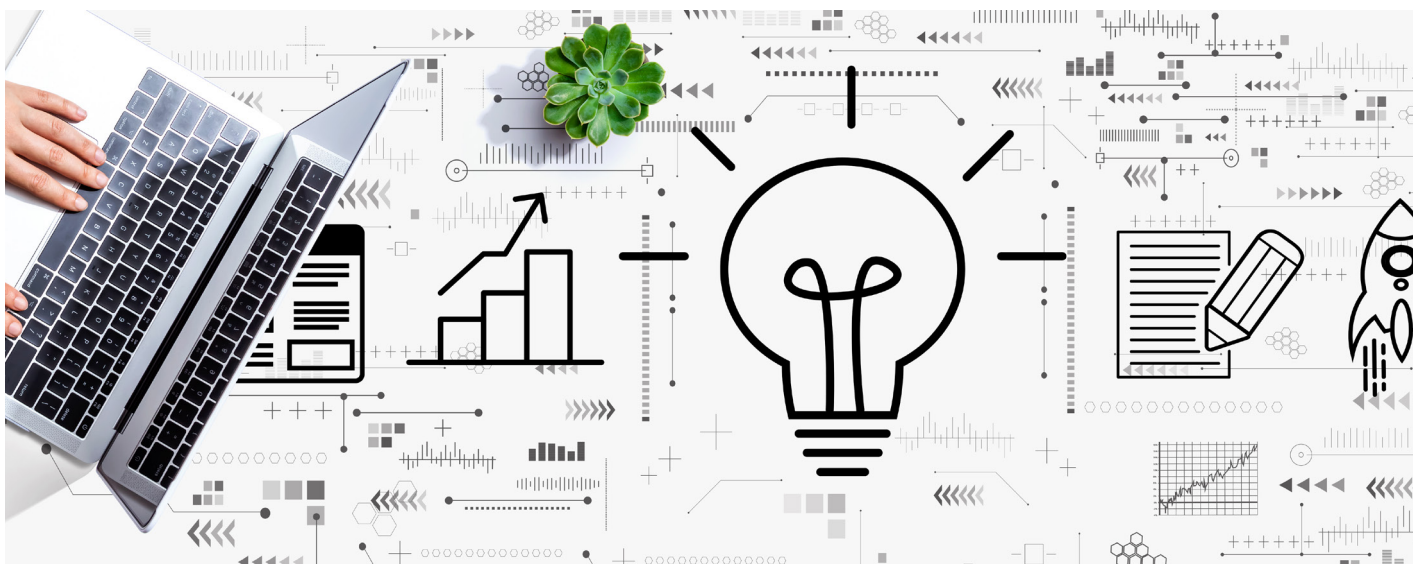
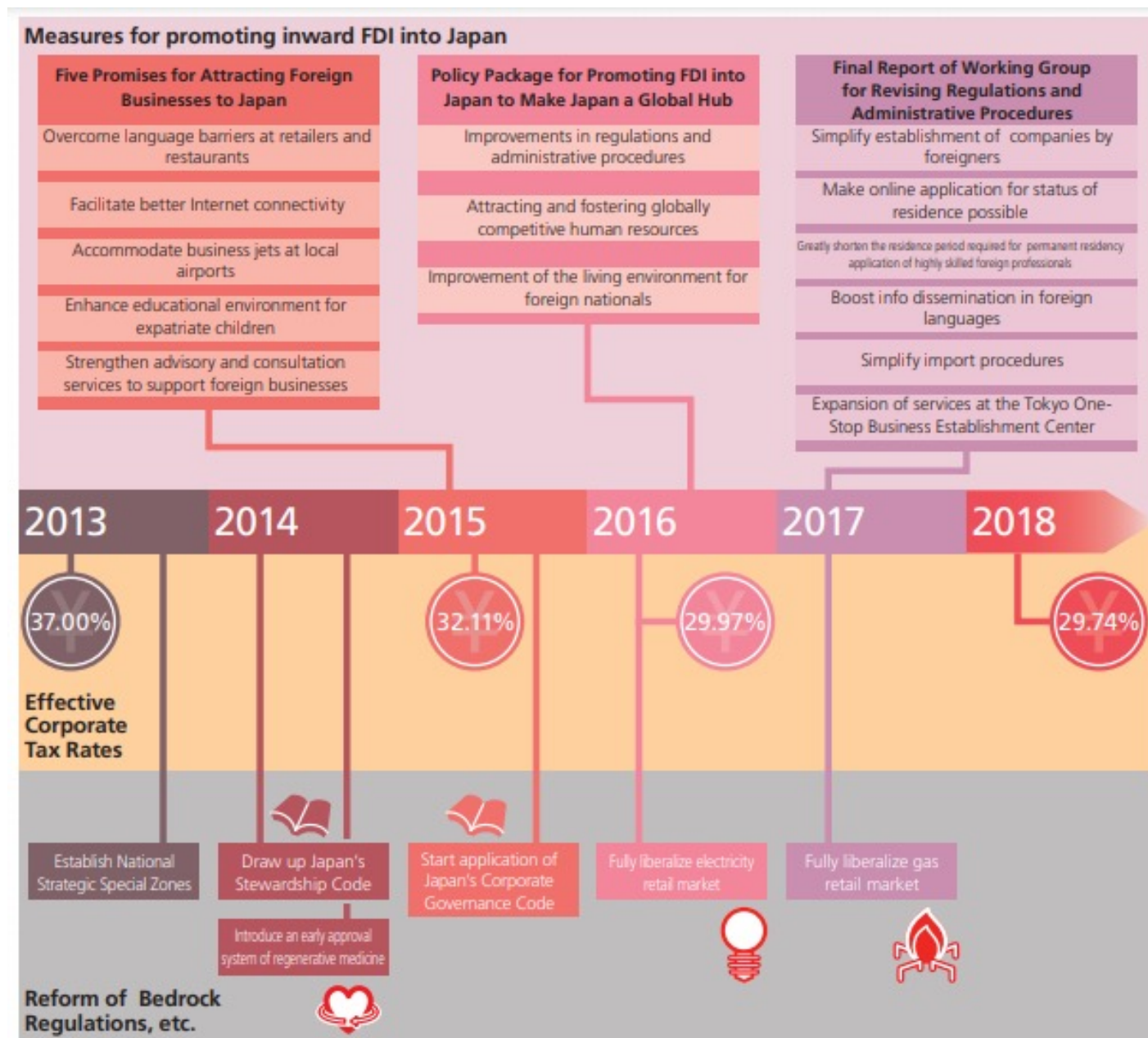


Figure 9 – Additional measures for promoting inward FDI to Japan



04. Prospective industries for investment in Japan

Japan's GDP is third only behind the USA and China, and although Japan's economy has mostly reached maturity, there are still sectors where there is potential future growth.

Although the three basic policies of Abenomics resulted in Japan escaping its long-term economic downturn, society still suffers from a decreasing population, which means that the population of consumers and workers is limited. The Japanese government therefore believes that inviting investments is the means to drive economic growth. In the aforementioned Strategic Market Creation Plan of Japan Revitalization Strategy 2015, (1) extending the healthy life expectancy of citizens, (2) realizing supply and demand for clean and cheap energy, (3) building a safe, convenient, and cost-competitive next-generation infrastructure, and (4) building globally attractive regional communities where local resources are leveraged to generate profits, were brought up as themes for growth sectors that specifically create needs.

Addressing the first point, Japan has the world's highest healthy life expectancy, and growth is expected in the medical care, nursing, and health sectors due to its rapidly aging population. Japanese citizens are paying more for their nation's medical bills every year, and the health promotion and illness prevention services, life support services, drug and medical device markets, as well as elderly home sectors are steadily expanding as strategic areas. The scale of the Japanese domestic market amounted to 38.08 trillion JPY by 2019 and

is expected to grow to 80-90 trillion JPY by 2030. The 38.08 trillion JPY market in 2019 consisted of the following sub-segments: 11.8 trillion JPY (pharmaceutical), 4.28 trillion JPY (medical equipment), 2.5 trillion JPY (regenerative medicine), 11.7 trillion JPY (nursing care services), as well as 7.8 trillion JPY (preventative healthcare, e.g., fitness clubs, functional foods, health tourism, etc.).

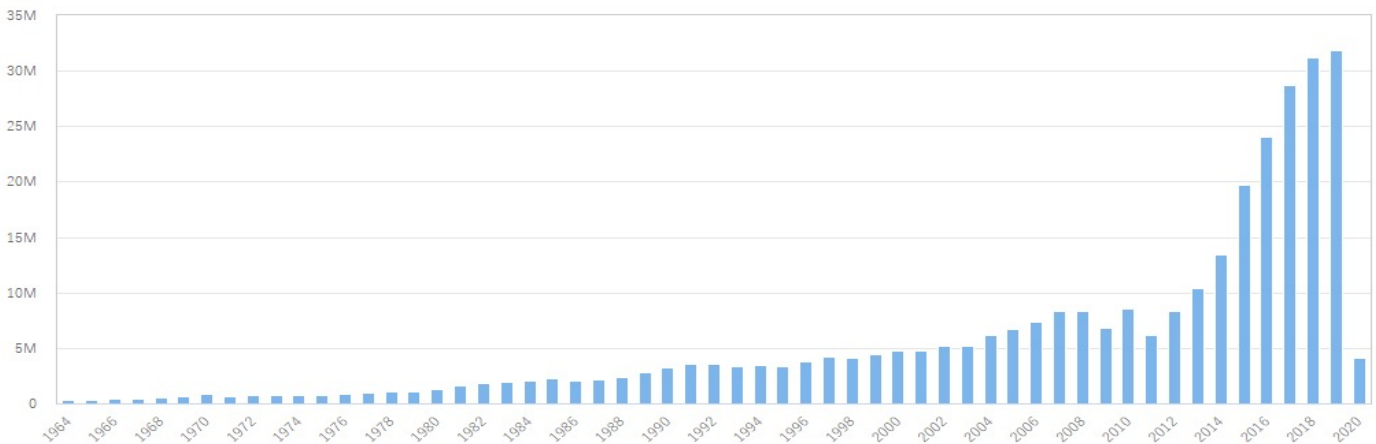
Continuing on, efforts to position innovations in the environment and energy sector as an engine for growth and build cooperation between the public and private sectors to spread Japan's environmental technologies, products, and services not only within Japan but also to Asia and other foreign markets are also being seen in Japan. For example, renewable energy, high-efficiency combustion energy, storage batteries, next-generation automobiles, energy management systems, and low-energy homes have been designated strategic sectors. The current Japanese domestic market is estimated to be 4 trillion JPY and is expected to grow to 11 trillion JPY by 2030.

Next, by attempting to economically repair important and aging infrastructure, Japan aims to continue providing safe and robust infrastructure, and in preparation for an aging society, the nation also aims to become a society that continues to ensure a convenient and safe life using systems that support safe driving for the elderly and the establishment of an advanced logistics system. For example, infrastructure management, safe vehicle driving support systems, and space infrastructure creation have been designated strategic sectors. The current Japanese domestic market is estimated to be 2 trillion JPY and is expected to grow to 33 trillion JPY by 2030.

The Japanese government is working to establish and strengthen regional brands. Special regional agricultural, forestry, and fisheries products and sightseeing resources are the key factors that constitute these brands.

Foreign visitors to Japan steadily grow over the years, with 31.19 million in 2018 and 31.88 million in 2019. Due to the unforeseen COVID-19 epidemic in 2020, the number dropped to 4.11 million in 2020, the lowest since 1964, as countries' close their borders to control the spread of the virus. Tokyo Olympics and Paralympics, which was delayed from 2020 to 2021, initially expected to significantly push the tourism industry ahead. Unfortunately, despite still being held at the moment from 23 July – 8 August 2021, due to pandemic concerns, there are no spectators allowed, which significantly affects the projected potential economic benefit of conducting the Games. No international visitors are drawn from the Games. It is hoped that once the pandemic subsides and the country's economy is back on track, tourism and foreign investments can recover and continue their growth at their pre-pandemic rates.

Figure 10 – Overseas Residents' Visits to Japan by Year



Source: Japan National Tourism Organization (JNTO)

The Japanese market presents promising investment opportunities for foreign companies with products and services in growing sectors like the ones mentioned above. At the same time, there are many other Japanese companies that possess advanced technologies and knowledge but are suffering from declining performance due to their inability to fully leverage those advantages. These companies tend to have constraints on financing, lack talent and experience for running a fast-growing business overseas, and do not have a growth strategy. Foreign companies can build a win-win relationship with such domestic companies by investing in them and securing access to the Japanese market, while at the same time supporting those companies to expand into their respective markets and create local sales channels.

05. Summary

With help from the Japanese government, direct investments in Japan by foreign businesses have been growing steadily from the second half of the 1990s.

The Japanese market is one of the world's leading markets, and contains many global companies and SMEs with advanced technologies that support the global companies. It is rife with sectors of potential growth, such as healthcare, environment and energy, regional branding, and more. The market is also home to many companies that have advanced technologies and knowledge, but lack the funding or talent to expand overseas, providing opportunities for building a win-win relationship.

The global COVID-19 epidemic has put a damper on this projected rapid progression towards Japan's economic

recovery as the country combats economic regression, mortalities and healthcare threats, as well as political instability.

As international trade and investments retracted due to each countries' focus on domestic economy recovery, focus on promoting FDI has taken a back seat. Even the Olympics and Paralympics Games (2020/2021) has not been producing much draw in terms of foreign investments and spending due to epidemic concerns.

However, the government is striving to curb the spread of the novel corona virus and such measures are in line with foreign investors' interests as it will enable the local economy to get back on its feet. In the current semi-post-pandemic state, the government is doubling down on its efforts to attract FDI to achieve two primary agenda items: accelerate digitalization and carbon neutrality adoption across

sectors. Various incentives are introduced to attract businesses and talents which serve as the bedrock to achieve these goals including tax reform, fundraising systems, simplification of administrative processes, Super City initiative, and the international finance city program. All of these programs showcase the government's serious intent to further expand the globalization of its economy, alongside attracting higher FDIs in the following years

Outbound investments by Japanese companies have deepened economic ties between Japan and foreign countries. Going forward, this mutually beneficial relationship is expected to be developed further through rapidly growing investment by foreign companies in Japan.



II. Things to consider when expanding into Japan

The Deloitte Tohmatsu Group works in close collaboration with key organizations in Japan, amongst which JETRO and regional municipalities, provide a one-stop comprehensive service for companies looking to expand into Japan. Below is an outline of critical elements to consider when expanding into Japan.

01. Purpose of expansion

Prior to expanding into the Japanese market, the purpose and business case of expansion must be well defined. This requires comprehensive research to build proposed business development strategies, understand profit drivers of the local market and create a general feasibility plan for developing a business in the local Japan market.

02. Expansion conditions

Companies also need to meet local and Japan conditions for expansion in order to allow them to expand to the Japan market.

01. Conditions in the local market

Companies wishing to expand business to Japan need to assure that they meet the local conditions for foreign expansion of the jurisdiction where its headquarters are located. Depending on the jurisdiction, there is the likelihood that highly regulated industries will need to be authorized by the local government before they can expand to external markets.

02. Conditions in the Japan market

When establishing a business presence in Japan, external companies will need to acquire the appropriate qualification to reside in Japan. In order to acquire this qualification, an individual that represents the company needs to establish a site for conducting business. Specifically, this entails that the individual enters Japan with a "Temporary Visitor" visa, establishes the corporation and then ultimately acquires the qualification to reside long-term to run the business in Japan. From a Japanese immigration perspective, Japanese national and 'Permanent Resident', 'Spouse or child of Japanese National', Long-Term

Resident', or 'Spouse or Child of Permanent Resident' visa holders can establish the company and operate the business in Japan. It is not necessary to enter Japan with the temporary visitor visa to set up the company.

To manage the business physically in Japan, the individual must acquire a Business Manager Visa. To acquire this visa, a feasibility study must be conducted to evaluate the possibility of running the business in Japan. Furthermore, the applicant must also invest at least 5 million JPY (in rent, employee wages, etc.) or hire at least two full-time employees. The latter requirement is loosened for Tokyo, Kanagawa Prefecture, Chiba City, Narita City, Niigata City, Yabu City, Fukuoka City, Kita Kyushu City, Okinawa Prefecture, Semboku City, Sendai City, Aichi Prefecture, Hiroshima Prefecture, Imabari City, Gifu Prefecture, Kobe City, Osaka City, Ibaraki Prefecture, Kyoto, Mie Prefecture, Oita Prefecture, and Hokkaido for running a start-up business for a limited time. Note that the minimum 5 million JPY investment is not an annual requirement, and no additional investment is required provided that the invested 5 million JPY or more has not been pulled out.

03. Industries that are regulated in Japan

Japan is not a country where investors can unrestrictedly enter any industry. Therefore, you must check if the business you are trying to start in Japan falls under an industry with restrictions concerning foreign capital or operation by a foreigner. Refer to "III. Regulations on foreign investors investing in Japan" for details.

04. Business operating costs

Although this will also be covered in the feasibility study, you must have an idea of the scope of money needed to run the business.

Relatively important items regarding expenses include office-related fees such as rent, labor expenses (salaries, bonuses, social insurance, etc.), and taxes. You also need to consider expenses required for living.

Depending on the location to which you will expand your business (e.g., Tokyo, Nagoya), rent and other office expenses start from approximate 3 million JPY (100 m²), and labor expenses start from approximate 7 million JPY per person.

05. Types of expansion

There are several routes to expand one's business in Japan. Foreign companies need to carefully evaluate the merits and demerits of each type of expansion to find the route that best meets the current and future state of their enterprise. The most common routes include the establishment of a representative office, the establishment of a branch office or through a subsidiary company. If the main purpose of entering the Japan market is to collect local market information, setting up a representative office is most likely the best suited choice, due to the effort associated with this route. For companies that plan to conduct more substantial business efforts, such as import and export, establishing a branch office in Japan can be a better choice to meet business development needs. Foreign companies that have long-term strategic plans in which the Japan branch might become one of the main business bases, establishing a subsidiary company (e.g., a joint-stock corporation, limited liability company) locally might be the best route.

06. Employment

Traditional Japanese companies have tended to provide lifetime employment and it is not uncommon in these companies for employees to work in the same company until the legal retirement age. In recent years, employment and recruitment have become more diversified. Examples of this include the hiring of experienced workers, contract employees, part-time employees, as well as employees referred by personnel agencies. Employment in Japan is regulated by Japanese labor laws (e.g., Labor Standards Act, Minimum Wage Act), which set out the minimum wage standards, labor, and social insurance systems, etc.

07. Tax policies

Branch offices and corporations must pay corporate tax, and individuals must pay personal income tax. As Japanese tax laws are complex and, sometimes, vague, it is normal to work with a local tax accountant for tax filings and advisory.

Details are explained in "I. Outline of tax policies".

08. Accounting policies

Most of the current Japanese accounting policies are similar to IFRS, using double-entry bookkeeping on an accrual-basis. As with IFRS, profits and expenses are recognized at the time when the transaction occurs.

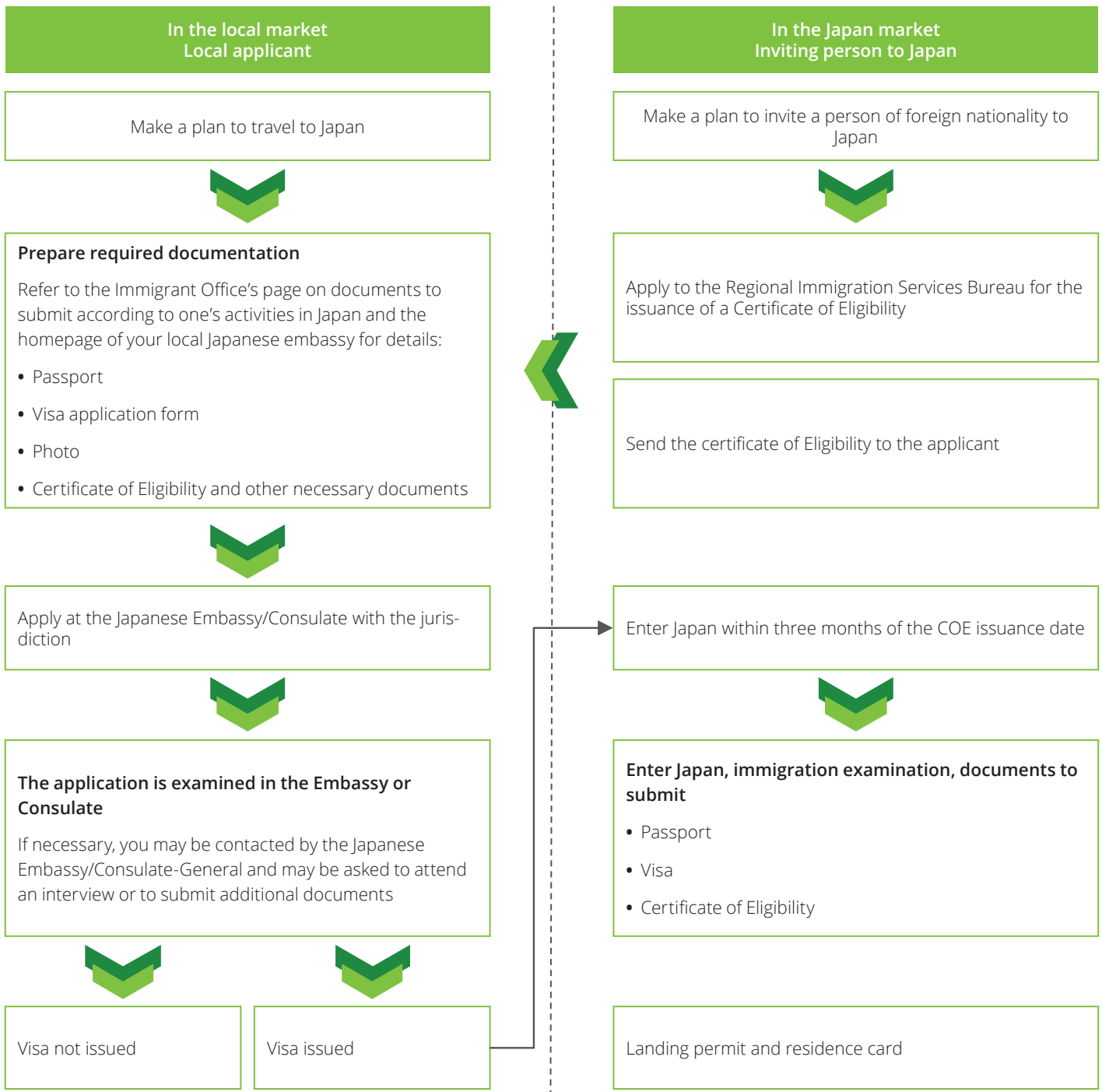
09. Work-related visa and status of residence in Japan

Procedures Chart for Work or Long-Term-Stay Visa

Visitors to Japan on temporary visitor visas are not allowed to work in Japan. For foreign companies that plan to enter the Japan market, all employees planning to work locally in Japan must obtain Working Visas or Long-Term-Stay Visas (Specified visa or Highly Skilled Professional visa) before they arrive in the country. Applicants will also need to liaise in this process with the Japanese embassy or consulate in their residing countries.



The chart below from the Ministry of Foreign Affairs provides an outline of the general process



Certificate of Eligibility – pre-requisite before applying for work-related Visa in Japan

The Certificate of Eligibility for Japan is a document you have to get before you can apply for a long-term Japan Visa, such as a Work Visa.

This certificate is examined in advance by the Immigration Services Agency of Japan, conforming to the conditions of landing in Japan and accelerating the process for visa issuance. The Certificate of Eligibility is effective for three months from its issuance date. You must acquire a visa and arrive in Japan within the effective period.

Examples of the work-related statuses of residence in Japan

a. Highly skilled professional

(Period of stay: 5 years)

The person with outstanding abilities and credentials will be granted the status of residence as “Highly skilled professional”.

b. Engineer/Specialist in Humanities/ International Services

(Period of stay: 5 years, 3 years, 1 year or 3 months)

Contracted positions with public or private organizations which utilize technology or specialized knowledge in fields related to physics, engineering, natural science, law, economy, and sociology; or those which require an understanding

of or sensitivity to foreign cultures, e.g., mechanical engineers, interpreters, designers, language teachers in private companies.

c. Business Manager

(Period of stay: 5 years, 3 years, 1 year, 4 months or 3 months)

Managing businesses in Japan related to international trade and/or activities related to business management, e.g., managing a corporation, working as a supervisor, and so on.

d. Intra-company Transferee

(Period of stay: 5 years, 3 years, 1 year or 3 months)

Engagement in work activities by an employee of a foreign office of a public or private organization that has a head office, branch office, or other office in Japan, on a time-limited basis at a business office in Japan, that require skills or knowledge in science, engineering, or other fields of natural science or engagement in work activities that require knowledge in law, economics, sociology, or other fields within the humanities (equivalent to

the status of residence as “Engineer/ Specialist in Humanities/ International Services”).

Applicants who fall under these criteria include transferees from the foreign office of a company.

e. Specified Skilled Worker

(Period of stay: i: 1 year, 6 months or 4 months. ii: 3 years, 1 year or 6 months)

Specified Skilled Worker (i) Work activities that require specified skills and a considerable degree of knowledge or experience in a specified industrial field based on employment contracts entered into with a public and/or private organization in Japan. Specified Skilled Worker (ii) Work activities requiring substantial skill in a specific industrial field based on employment contracts with public and/or private institutions in Japan.



III. Regulations on foreign investors investing in Japan

The Japanese government abolished the Foreign Capital Act¹ in 1980. It reversed its policy on foreign direct investments in Japan from generally restricting it to generally allowing it, and loosened regulations.

After this, the Program for Acceleration of Foreign Direct Investment in Japan was created by the Koizumi government that came to power in 2001 with the goal of “doubling the balance of investment to Japan in five years²”. The Program led to smoother entry of talented foreign researchers and foreign IT technicians into Japan through the creation of The Office of Invest Japan, and the establishment of the Special Zones for Structural Reform, promoted as part of the easing of regulations.

The Inward Investment Promotion Program was announced in November 2010 to promote investing in Japan and create employment opportunities, based on the June 2010 cabinet decision for a New Growth Strategy, and regulations were further relaxed, including the simplification of administrative procedures for establishing a foreign company and ease of requirements for foreign IT talent to enter the country. As an example of further efforts to accelerate the relaxing of regulations concerning foreign investments in Japan, in December 2011, primary selected zones were chosen as Comprehensive Special Zones for International Competitiveness and Regional Revitalization. Corporate tax was reduced, financial and fiscal support measures were carried out, and incoming foreign companies were granted regulatory exemptions in the seven Comprehensive Special Zones for International Competitiveness, which included the Special Zone for Asian Headquarters established by the Tokyo Metropolitan Government with the purpose of attracting Asian headquarters and R&D locations of companies.

In March 2015, the Five Promises for Attracting Foreign Businesses to Japan were decided upon as a major initiative for promoting foreign direct investments in Japan by the Council for Promotion of Foreign Direct Investment in Japan under the leadership of the Prime Minister. As a part of this initiative, the Investment Advisor Assignment System was created with a State Minister or similar person as an advisor in order to help foreign businesses making important investments in Japan consult with the Japanese government. Efforts to establish a framework to support foreign direct investments in Japan were rapidly reinforced.

In June 2018, the Japanese government created the project-based Regulatory Sandbox framework, along with a comprehensive, general point of contact served by the government so that prior consultation and applications could be received. A June 2018 cabinet decision launched the Growth Strategy 2018 to trigger initiatives for improvement such as (1) shifting the procedures for establishing a corporation to an online, one-stop process, (2) adopting IT to handle legislative procedures, and (3) overall optimization of trade procedures.

Although the majority of industries are currently opened up to foreign businesses under the above situation, regulations on foreign direct investments in Japan do exist. These regulations are roughly divided into two categories: the Foreign Exchange and Foreign Trade Act (hereinafter “Foreign Exchange Act”) and regulations for individual industries. The Foreign Exchange Act mainly imposes restrictions on industries that may potentially harm national security or industries that maintain their autonomy. Regulations that apply to certain industries are roughly divided into two categories: (1) specific laws on public infrastructure and the like which place restrictions on foreign capital (such as the investment ratio) and (2) those in which municipal governors and the like require prior approval and/or application regardless of whether contributions are made from a foreign investor, from the perspective of public health, healthcare, public morals, etc.

01. Regulations by the Foreign Exchange Act

i. Types of direct investments in Japan

Types of direct investments in Japan (“inward direct investments”) roughly consist of the following:

- A. Establishment of a new corporation or location (greenfield investment)
- B. Acquisition of real estate
- C. Possession of loans or credit
- D. Acquisition of shares or businesses through M&As

For (c) and (d) above, possession of 10% or more of shares in a company listed on a Japanese stock exchange, or when shares, etc., in a non-listed Japanese company are acquired from a non-foreign investor, they are counted as inward foreign investments and subject to regulations (see the following table for details on the applicable requirements).

¹ Its official name is the “Act on Foreign Capital”

² January 2003 Prime Minister policy speech. Related to the Program for Acceleration of Foreign Direct Investment. Refer to Chapter 1 “Trends in direct investments in Japan” for details on the content of specific initiatives.

Requirements needing prior notification or post reporting according to the Foreign Exchange Act

1	When acquiring shares of a company listed on a Japanese stock exchange resulting in the possession of 10% or more of the shares in that company (including owned shares in companies that have special relationships with the party acquiring the shares)
2	When a foreign investor acquires shares or equity in a domestic non-listed company from a non-foreign investor party, or when a foreign investor acquires shares or equity in a non-listed company from another foreign investor (specified acquisition)
3	When transferring shares or equity in a domestic non-listed company which were acquired while the individual was a resident to a foreign investor after the individual had become a non-resident
4	When possessing shares in a domestic company or possessing one third or more of the capital invested and agreeing to substantial changes in the business purpose of the company
5	When a foreign investor who is a non-resident individual or is registered as a foreign corporation establishes a branch, factory or similar location, or makes substantial changes of the type or business purpose of such branch, factory or similar location (Excluding banks, foreign insurance businesses, gas businesses, electricity businesses, and foreign securities companies)
6	When lending money to a Japanese corporation exceeding a period of one year, where one of the following applies: <ul style="list-style-type: none"> • Loan amount exceeds 100 million JPY (excluding lending by financial institutions in executing their business, and lending in JPY by foreign investors who are neither non-residents nor registered as a foreign corporation) • The sum of (1) the balance of money loaned from the foreign investor to the domestic corporation, and (2) the balance of corporate bonds issued by the domestic corporation and owned by the foreign investor after the money was loaned exceeds an amount equivalent to 50% of the amount designated as the liabilities of the domestic corporation after the loan
7	When acquiring corporate bonds of a domestic company with a redemption period of over one year through a specified format, where one of the following applies: <ul style="list-style-type: none"> • The acquired corporate bonds of a domestic corporation amounts to more than 100 million JPY • The sum of (1) the balance of corporate bonds issued by the domestic corporation and owned by the foreign investor and (2) the balance of money loaned from the foreign investor to the domestic corporation after the acquisition of the bonds exceeds an amount equivalent to 50% of the amount designated as the liabilities of the domestic corporation after the acquisition of the corporate bonds
8	When acquiring investment securities issued by corporations established through special laws
9	When conducting discretionary investments in the shares of a domestic listed company, where the investment ratio is 10% or more

(Created from the Bank of Japan Foreign Exchange Act Q&A)

These requirements generally apply to “(2) Mandatory prior notification and post reporting when investing” below regardless of type, and require prior notification or post reporting.

ii. Mandatory prior notification and post reporting when investing

The Foreign Exchange Act applies to transactions with foreign entities, such as the transfer of funds or the transfer of goods and services between Japan and another country. The Foreign Exchange Act was greatly revised in April 1998, mainly abolishing in principle the previously required prior notifications and approvals for capital transactions.

Due to this change, the details of an inward direct investment are in principle reported to the Minister of Finance and the competent minister for the business after the transaction has taken place as a “post report” (as stated in article 27 paragraph 1, or article 55 paragraph 5 item 1 of the Foreign Exchange Act), providing that prior notifications are required for certain industries based on the Foreign Exchange Act, Order on Inward Direct Investment, and other laws³.

Industries requiring prior notification

Prior notifications related to inward direct investments are examined by the Minister of Finance and the competent minister for the business for potential effects on Japan's security. Therefore, keep in mind that the transaction or action on the notification cannot be executed until 30 days have elapsed from the day the Bank of Japan has received the notification.⁴

³ Transactions below 100 million JPY in principle do not require post reporting.

⁴ This period of inaction is typically shortened to two weeks (source: http://www.boj.or.jp/about/services/tame/faq/data/t_naito.pdf).

Industries requiring prior notification

Reason for regulation	Applicable industries
National security	Weapons, aircraft, nuclear power, space development manufacturing, manufacturing of common items that have a high probability of military application, technologies related to certain designs and manufacturing, etc.
Public order	Electricity, gas, heating, telecommunications, broadcasting, sewage, rail, traveler transport, etc.
Public safety	Manufacturing of biological drugs and other products, security services
Smooth management of economy	Agriculture, forestry, fisheries, petrol, leather and leather products manufacturing, air transport, sea transport

(Refer to Attachments 1 and 2 of “About the specification of applicable industries by the Minister of Finance and the competent minister for the business” [hereinafter “About the specification of applicable industries”] in the Bank of Japan’s Foreign Exchange Law Q&A⁵ for details on the above industries and other industries that require prior notification)

A. Industries that need post reporting

Post reporting needs to be made to the Minister of Finance and the competent minister for the business through the Bank of Japan on the 15th (or the previous business day if the 15th falls on a holiday) of the month following an inward direct investment transaction or action, according to the format defined by law.

Although post reporting currently applies to many industries, specific industries are listed in Attachment 3 “About the specification of applicable industries”.

B. Transactions that do not require prior notification or post reporting

Transactions that apply to the following do not require post reporting or prior notification, even if they are inward direct investments.

- When acquiring shares, dividends, investment securities issued by a corporation established under a special law, loan claims, or corporate bonds as inheritance or testamentary gift.
- When acquiring shares or dividends in the surviving corporation or the new corporation of a corporate merger involving a “specific non-listed company” (non-listed company not operating in an industry requiring prior notification regarding specific acquisitions; the same applies below), where shares or dividends are owned in the specific non-listed company.
- When a company holding shares or dividends of a specific non-listed company splits, and the new or existing company inheriting the business acquires those shares or dividends.
- When acquiring shares in a non-listed company which are offered or sold after the company has applied for listing but before it is actually listed, and the combined investment ratio with related companies is less than 10%.
- When acquiring shares or dividends in a non-listed company in which post reporting is allowed, and the combined investment ratio with related companies is less than 10%.
- When establishing a branch office, where the purpose of the business falls under an industry in which post reporting is allowed.

(Refer to Article 3 Paragraph 1 of the Cabinet Order on Inward Direct Foreign Investment, etc., and Article 3 Paragraphs 1 and 2 of the Order on Inward Direct Foreign Investment, etc., for details on other requirements)

⁵ Link: https://www.boj.or.jp/about/services/tame/faq/data/t_naito.pdf

02. Foreign capital regulations for specific industries

Regulations for specific industries are roughly divided into two categories: (1) specific laws centered on public infrastructure which place restrictions on foreign capital and (2) those in which municipal governors and the like require prior approval and/or application regardless of whether contributions are made from a foreign investor, from the perspective of maintaining public health, healthcare, public morals, etc.

01. Main foreign capital regulations due to individual laws

These apply to industries involved in public infrastructure, and place restrictions on the investment ratio of foreign investors.

Industry	Details of regulation on foreign investment	Related law
Broadcast	Foreign businesses, corporations where one third or more of their executives are not of Japanese nationality, and Japanese domestic businesses where one third or more of their voting rights belong to a foreign business may not acquire the permit for carrying out a broadcasting business.	Broadcasting Act
Telecommunications	Individuals who are not of Japanese nationality, corporations represented by such individuals, and corporations of which one third or more of their executive positions or voting rights are held by such individuals may not acquire a radio station license. Nihon Telegraph and Telephone Ltd., the holding company of NTT Corporation, is forbidden from having one third or more of its voting rights belong to non-Japanese people (including indirect investments). Non-Japanese people are also not allowed to become an executive of Nihon Telegraph and Telephone Ltd., Nihon Telegraph or its regional companies, Telephone East Corporation, and Nihon Telegraph and Telephone West Corporation.	Radio Act NTT Act
Aircraft	Individuals who are not of Japanese nationality, or juridical persons of which either one third or more of their executive positions or voting rights are held by such individuals, may not register aircraft they own. These persons may neither receive approval to operate an air transportation business.	Civil Aeronautics Act
Logistics	Juridical persons of which either one third or more of their executive positions or voting rights are held by individuals who are not of Japanese nationality may not register a first-class consigned freight forwarding business, or receive approval for a second-class consigned freight forwarding business (foreign investments are allowed for consigned freight forwarding businesses pertaining to international freight forwarding).	Consigned Freight Forwarding Business Act
Financial	Approval and registration are required for financial, securities, and insurance industries.	Banking Act and other laws
Power, gas, electricity, waterworks	Approval by the Minister of Economy and Finance or the Minister of Health, Labour and Welfare is required.	Electricity Business Act and other laws

02. Regulations from the perspective of public health, healthcare, public morals, and the like

From the perspectives of public health, healthcare, public morals, and the like, an individual, regardless of whether the individual is a foreign investor, must obtain prior approval by and notification to the residing prefecture's governor or municipal authorities before starting a business in one of the industries below. Major industries include the following:

	Industry	Related law	Approval, etc.	Point of contact
Public health	Restaurant business, café business, dairy products seller, meat seller, seafood seller, tofu producer, other food producers	Food Sanitation Act, individual municipal regulations	Governor approval	Public health center
	Barber and salon business, public bath, hotel industry	Environmental Sanitation Law	Governor approval	Public health center
Healthcare	Pharmacy business and general marketing distributor, second-class drug distributor	Pharmaceutical Affairs Law	Governor approval	Public health center
Public morals	Cabaret, restaurant, café, club, dance hall, bar, mahjong parlor, pachinko parlor, amusement center, etc.	Amusement Business Act	Public safety commission approval	Police station
Public security	Pawn shop	Pawnbroker Business Act	Public safety commission approval	Police station
	Secondhand article seller	Secondhand Articles Dealer Act	Public safety commission approval	Police station
	Hunting and air gun seller, etc.	Ordnance Manufacturing Act	Governor approval	Police station
Finance	Tobacco seller	Tobacco Business Act	Finance Director of the Ministry of Finance approval	Japan Tobacco Inc.
	Alcohol seller	Liquor Tax Law	Tax Office Chief approval	Tax Office
	Rice and cereals seller	Staple Food Act	Governor registration	Municipalities
Other	General travel business	Travel Agency Act	Minister of Land, Infrastructure and Transport registration	Land Transport Bureau office
	Temporary staffing businesses	Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers	Minister of Health, Labour and Welfare approval	Public Employment Security Office

03. Investment agreements with China

China and Japan have signed an investment agreement that includes protection of business activities and investment assets, as well as fair treatment of foreign nationals and freedom of investment for investors entering the market. This agreement has been effective since May 14, 1989. Japan has in place a sufficient legal framework, a healthy⁶ investment environment, and has no records of international investment arbitration (arbitration between Japan and an individual investor) arising from the violation of an investment protection agreement.

However, issues have been raised with the Agreement between Japan and the People's Republic of China Concerning the Encouragement and Reciprocal Protection of Investment, such as (1) regulations on the stages for obtaining permission for establishing an investment only existing for the treatment of most-favored country and not for the treatment of nationals, (2) no clauses being provided concerning the prevention of requesting for execution of specific treatment for investment activities such as demands for technology transfer, and (3) prior submission to arbitration between a country and an individual investor is limited to conflicts related to the amount of compensation for expropriation (e.g., of a construction site) (meaning that the issue of whether the expropriation of the land itself is appropriate is left outside the scope), and there have been calls for its amendment. A new protection agreement, the Agreement Among the Government of Japan, the Government of the Republic of Korea and the Government of the People's Republic of China for the Promotion, Facilitation and Protection of Investment, was signed and placed into effect in May 2014 to replace the former agreement. This new agreement solved the aforementioned issues with the former Japan-China Agreement. Currently, discussions and negotiations on a Japan-China-Korea free trade agreement are being held as one of the comprehensive legal frameworks in the field of economics.

A social security agreement between Japan and China was decided to be placed into effect on September 1, 2019.

This agreement details that employees temporarily sent to another country from their company (stationed employees) for a period of five years or less will, in principle, only be subject to the pension system of their country of origin, reducing the burden on both companies and stationed employees, and is expected to further promote personnel and economic exchange between the two countries.

⁶ Evaluations of Japan's investment environment that came out in the 1990s raised non-tariff barriers, such as Japanese businesses' strong tendency to trade within their affiliated group, as one of the major factors obstructing foreign investment into Japan. However, recent obstruction factors are instead related to the actual business, such as Japanese consumers' preference for higher quality goods and high personnel costs, and many companies answer that the actual investment environment is good (from data by the METI Trade and Economic Cooperation Bureau and other sources).

IV. Choosing how to expand into Japan

Legal types for expanding into Japan

The following items need to be considered when deciding which legal type to use when expanding into Japan:

- Whether sales activities will be conducted
- Entity bearing responsibility in the case of legal action
- Tax treatment

01. Whether sales activities will be conducted

1. Outline of the types of expansion

Foreign companies generally establish a business presence in Japan in one of three modes: (1) representative office, (2) branch office, and (3) subsidiary company.

	Representative office	Branch office	Subsidiary company (e.g., joint-stock company)
Characteristics	No plan to conduct any sales activities in Japan	Plan to conduct export businesses or other direct sales activities in Japan	Have long-term strategic plans in which the Japan branch might become one of the main business bases
Registration	Not required	Required	Required
Bank account opening	X*	√	√
Lease real estate	X*	√	√

Note*: A representative office cannot ordinarily open bank accounts or lease real estate in its own name, 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.

2. Considerations for selecting the operation type

Establishing a representative office, which doesn't require time-consuming registration procedures, is often the first choice for foreign companies that do not intend to conduct any sales activities in Japan. Their purpose of entering the Japan market can be advertising, information gathering, or market research in Japan. For foreign companies that plan to conduct sales activities in Japan, establishing a branch office or subsidiary can better meet their business needs.



02. Entity bearing responsibility in the case of legal action

1. Outline of entity bearing responsibility in the case of legal action

The difference between representative offices, branch offices, and corporations is whether the location established in Japan will be considered as a separate juridical person from its Chinese investor company.

	Representative office	Branch office	Subsidiary ¹
Separate juridical person ²	No	No	No
Ownership of credits and debts	None	Belongs to the Chinese company	Belongs to the subsidiary
Creditor protection	Mostly borne by seconded employees	All borne by the Chinese company	The Chinese company bears up to the invested amount ²
Appointment of executives (representatives)	Not required	Not required; However, a representative in Japan is required	One or more required
Term of executives (representatives)	None	No particular legal provisions for representatives	Generally two years or less ³

*1: Assumes a privately owned stock company other than those with a committee.

*2: Although the subsidiary will have limited liability legally, all liabilities may be borne by the Chinese company in practice.

*3: May also be set to a period of 10 years or less depending on the articles of incorporation.

2. Effects of being a separate juridical person

By being recognized as a separate juridical person, the entity gains its rights as a company and is allowed to bear responsibilities. This means that although corporations could become the entity to which rights and obligations belong, the Chinese company is responsible for rights and obligations in the case of branch offices.

Due to this, creditors exercise their rights against the Chinese company when dealing with branch offices in practice, and they exercise their rights against the particular corporation when dealing with a corporation.

Note that a branch office is treated as part of the investor Chinese company, and thus it cannot change its organization from a branch office to a corporation. When shifting sales activities from a branch office to a corporation, a new corporation must be established and the business or assets of the branch office transferred/sold to this corporation.

03. Tax treatment

1. Outline of tax treatment

Branch offices and corporations are mostly the same in terms of tax.

Tax item	Description	Representative office	Branch office	Corporation
Corporate tax, etc.	Tax rate		Legal effective tax rate is 29.74% ¹	
	Taxable income		Income attributable	Income from sources worldwide
	Bringing forward of retained losses		Can be brought forward for 10 years ^{2,3}	
	Taxation of interest expense	Corporate tax is normally not imposed unless it is recognized as a permanent establishment.	Loans payable from the head office: Cannot be counted as deductible expense	Can be counted as deductible expense.
			Loans payable from third parties: Can be counted as deductible expense	However, caution is required for the thin capitalization and earnings stripping rules
			However, caution is required for the thin capitalization and earnings stripping rules	
	Per capita inhabitants tax		Imposed according to factors such as capital of the head office	Imposed according to factors such as capital of the corporation
	Tax reporting		Required (done by branch office)	Required (done by the corporation)
			Attachment of financial statements for both the head office and branch office made to international standards are required	Attachment of the corporation's financial statements is required
Withholding tax	Dividend payment	None	None	20.42%

1. Applies to entities with capital of over 100 million JPY and subject to the dual corporate tax system. The breakdown is: 25.59% as the total of corporate and similar taxes; 1.62% residence tax; and 3.60% as the total of business and similar taxes. Note that effective tax rates are the sum of individual tax rates after adjusting for the partial inclusion of tax burdens levied onto corporate income as deductible expense. Effective tax rates are 29.74% for the standard rate and 30.62% for the excess rate for fiscal years starting from October 1, 2019 onward.

2. Losses incurred in fiscal years starting from April 1, 2018 onward can be brought forward for 10 years

3. Note that, excluding SMEs, the amount of deductions carried forward is limited to a certain percentage of the income. For fiscal years starting from April 1, 2018:

2. Treatment of revenues and expenses

There is no particular difference regarding the treatment of revenues and expenses between branch offices and corporations in Japan.

Revenues and expenses of branch offices are processed as those of the foreign company. On the other hand, as corporations have a separate judicial personality from the investor company, revenues and expenses of corporations are processed as their own.

3. Treatment of taxable income

Taxable income (the difference between revenue and expense for tax purposes) is also generally treated in the same way as revenues and expenses.

4. Thin capitalization rule

As Japanese companies are allowed to deduct interest payments on debts from their taxable income as losses, it becomes possible for a foreign company establishing a corporation or similar entity in Japan to report a small figure as their capital and increase the amount of debt in order to reduce their corporate tax in Japan and shift their taxable income to the company located abroad.

For this reason, the thin capitalization rule was adopted. Specifically, this rule disallows interest payments over a certain ratio to be counted as deductible expense. The ratio is calculated using the formula below, and generally applies to the interest on the portion of loan from the foreign company that exceeds the amount equivalent to three times the equity contributed by the foreign company.

$$\text{Non-deductible amount} = \frac{\text{Total of interest paid to foreign controlling shareholders in that FY} \times (\text{A} - \text{Equity interest held by foreign controlling shareholders} \times 3)}{\text{Average of the debt balance with each foreign controlling shareholder (A)}}$$

The Companies Act abolished the minimum capital criteria and made it relatively easier to establish a company, but it is necessary to keep this rule in mind when deciding on the amount of capital.

5. Earnings stripping rule

When calculating a company's income, the rule to account for interest payments as losses could be used to reduce the tax burden on the Japanese entity by establishing arbitrary borrowings between affiliated parties and recording excessive interest payments as losses without impacting the overall revenues and expenses of the parties involved. The earnings stripping rule was adopted in addition to the thin capitalization rule to prevent this type of tax evasion.

This rule dictates that when a corporation pays a certain amount of interest on a debt, if the net interest paid by the corporation for the applicable fiscal year exceeds 20% of the corporation's adjusted income, interest beyond this 20% cannot be counted as losses.

The amount of interest that was in excess is carried forward for seven years from the next fiscal year, and is calculated as losses with a limit of the amount equal to the difference left from subtracting the amount of interest from 20% of the adjusted income.

$$\text{Amount not deductible} = \text{Net interest paid} \square \text{Adjusted income} \times 20\%$$

04. Amount of capital

1. Practical considerations in deciding on the amount of company's capital

Capital needs should be understood in order to decide on a capital amount. This section will detail capital needs that are the product of Japanese business practices. However, as these are not decided by law and differ among regions and industries, individual cases shall be confirmed in practice.

a. Usance period for debt collection

The usance period for debt collection is an important element when understanding capital needs as it decides the timing at which cash can actually be collected after a product has been sold or service has been provided. It is normally determined according to the power balance between the company and its business partners.

One also needs to be aware that, when using promissory notes, the actual deposit may be delayed for about half a year depending on the maturity period. It is also possible to cash out (discounted) a highly trustworthy promissory note at a bank by paying a handling fee.

b. Usance period for debt payment

The usance period for debt payment is an element that is just as important as that for debt collection when understanding capital needs, as it decides the timing at which cash must be paid after purchasing a product or service. Although this is normally determined according to the power balance between the company and its business partners, there are cases when the partner demands cash transactions, advance cash payments, margin deposits, and the like if the company still has low credibility.

c. Usance period for payment of salary-related debts

Compensation for employees is paid as salaries or bonuses. Normally, wage calculation for a particular month is closed at the end of the month and paid on the 10th, 20th, or 25th of the following month.

Bonuses are normally paid during summer and winter. This is because the need for capital in Japan is high around the Obon (summer) and year-end seasons, and also because the standards for calculating factors such as premiums for welfare pension insurances were decided based on the average salary over a period that does not involve bonuses (this has now been changed to consider total compensation). This means that salaries have the characteristics of being an “after-the-fact” payment rather than something paid when profit is generated.

However, bonuses are not mandatory, and in recent years, some companies have decided against adopting the policy.

d. Security deposits and key money

Although the conditions when signing a rent agreement for Japanese offices and lodgings are decided between the parties involved, security deposits and key money may be involved, and rent is also normally paid one month in advance.

Security deposits are practically transaction guarantees and may amount to approximately two or more months' worth of rent (more than 12 months in some cases). The security deposit is normally returned when withdrawing from the location, subtracting any expenses used to return the location to its original state. However, the security deposit, while active, cannot be used as capital, and must be categorized as unusable capital in financial planning.

An intermediary processing fee paid to the real estate agent worth about one to two months of rent is also added to key money paid to the landlord. Prior research is a must, as other deposits may also be required depending on the contents of the transaction.

2. Laws and regulations that come into effect depending on the company's capital

The main laws and regulations that come into effect depending on the capital amount are as follows:

a. Companies Act

A company accounting auditor must be appointed for stock companies that are categorized as “large companies” or have a supervisory committee. In this context, a “large company” is defined as a company with stated capital of 500 million JPY or more (or have total liabilities at the end of its most recent business year of 20 billion JPY or more).

b. Corporation Tax Law

Exceptions (preferential treatments) are applied to companies with a stated capital of 100 million JPY or less according to Corporation Tax Law. Example exceptions are as follows:

1. Reduced tax rate	Tax rate of 15% or 19% for the part of income which is 8 million JPY or less
2. Reserve for bad debts	Reserve for bad debts can be counted as deductible expense up to a certain limit
3. Losses	(1) Losses carried forward can be deducted for up to 100% of the income (2) Losses can be carried back (one year) for a refund
4. Tax on retained income	Exemptions for retained income tax for specific family companies
5. Special tax measures	(1) R&D tax break system: Tax deduction rate calculated based on the sum
	(2) Tax credits for acceleration of wage increases and capital investment (reorganization of income expansion promotion tax system): Requirements for increasing wages and other payments, tax credit rate
	(3) SME investment promotion tax system
	(4) Special depreciation and tax credits facilities to improve management for SMEs in the commercial and services industries
	(5) SME management reinforcement tax system
	(6) Exceptions for SMEs to count acquisition costs of small-value depreciable assets as deductible expense

However, even if the company's stated capital is 100 million JPY or less, note that certain exceptions may not apply if the company is a wholly owned subsidiary of a large foreign company (with stated capital or investment of 500 million JPY or more).

3. Local law (inhabitants tax)

Inhabitants tax consists of two parts: the part that is calculated by applying a tax rate to the corporate tax (the "corporate tax portion"), and a part that is calculated based on the company's capital and number of employees (the "per capita" portion). In the case of the per capita portion, the tax burden decreases in accordance with the amount of capital and is usually not a significant amount.

However, inhabitants taxes are levied against branch offices, and branch offices may be charged a per capita portion larger than the actual scale of the branch office if the foreign head office has a large amount of capital, as the JPY-converted capital of the foreign head office is used for calculations.

4. Local law (enterprise tax)

Normally, enterprise tax is levied according to the taxable income, but for companies with over 100 million JPY in stated capital, its capital and added value will also be taken into consideration. This is called the factor base tax system.

Despite the downside of the tax being levied even against companies making a deficit, this system specifies a lower tax rate on taxable income than that for companies with a stated capital of 100 million JPY or less. This means that this system is not necessarily disadvantageous for companies creating large amounts of added value.

5. SME Basic Act

The Small and Medium-sized Enterprise (SME) Basic Act defines the companies in the following table as SMEs, and companies clearing certain conditions may obtain preferential treatment such as loans, warranties, leases and grants.

The table below gives a general scope of SMEs defined by government policy, and the definition of "SME" may be different from the scope defined by other laws and systems. The applicable scope for the reduced tax rate for SMEs defined under the Corporation Tax Law is companies with a stated capital of 100 million JPY or less.

Industry	Definition of SME		
	Capital amount or total investment amount		Number of employees normally used
Manufacturing, construction, transport, and others (excluding those below)	300 million JPY or below	or	300 or less
Wholesale	100 million JPY or below	or	100 or less
Service	50 million JPY or below	or	100 or less
Retail	50 million JPY or below	or	50 or less



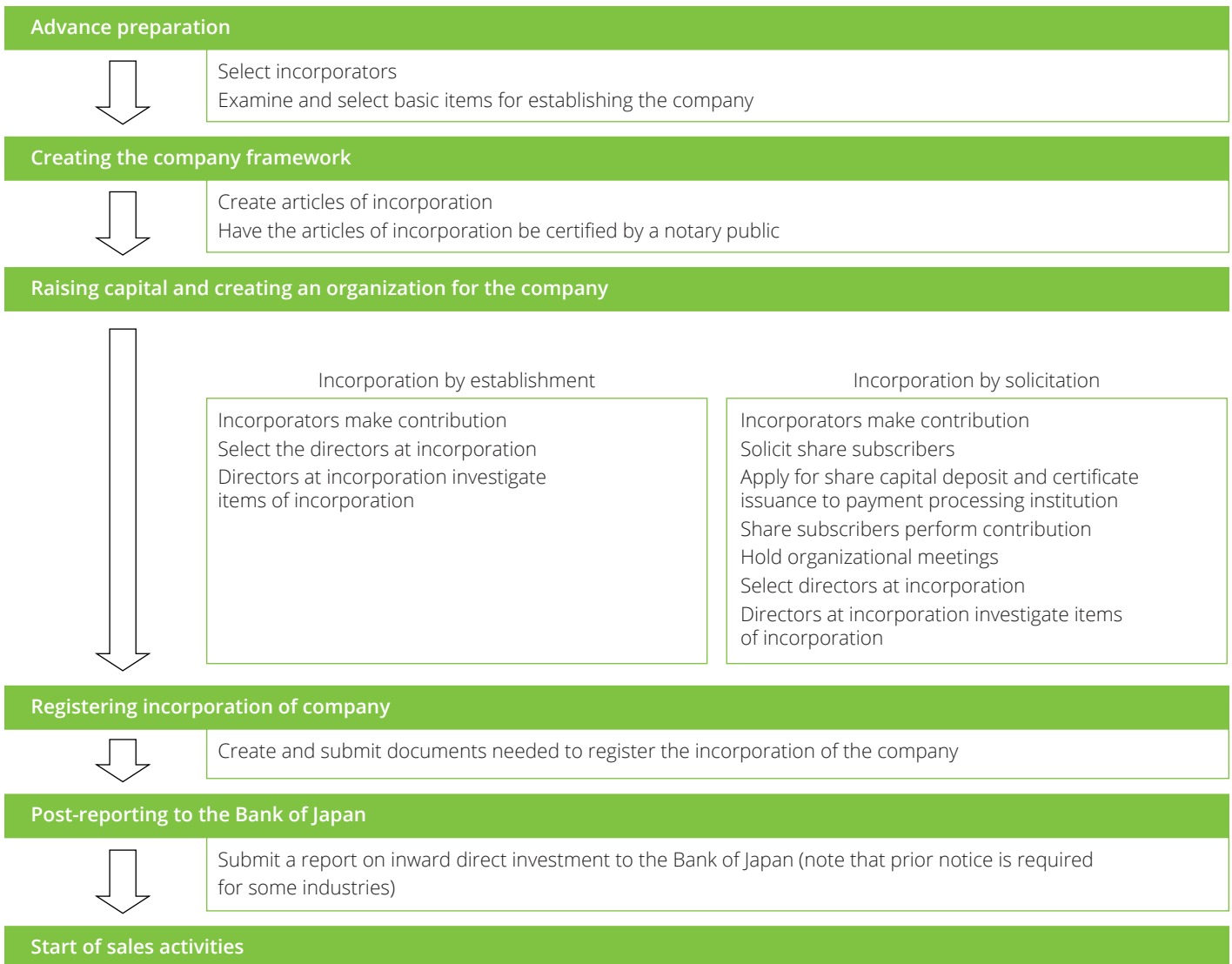
V. Establishing a Japanese corporation

Foreign companies generally establish a business presence in Japan in one of three modes: (1) establishing a subsidiary company (Japanese corporation), (2) establishing a branch office (e.g., sales office), and (3) establishing a representative office.

01. Establishing a Japanese corporation

Foreign companies need to choose and decide the corporation type when establishing a subsidiary in Japan. The typical corporation types stipulated by Japan's Companies Act include stock company, limited liability company, limited partnership company, and general partnership companies, etc. However, setting up a limited partnership company or general partnership company is rarely chosen as the partners shall assume unlimited liability.

The general procedure for establishing a corporation in Japan – Taking joint-stock company as example:



01. Advanced Preparation

a. Selection of incorporators

Incorporators must be selected to progress the establishment preparations in order to establish a stock company.

i. Number of incorporators

There is no limit to the number of incorporators as long as there is at least one.

ii. Qualifications of incorporators

There are no restrictions on the qualifications of the incorporators. This means that individuals, corporations, foreign nationals, minors, and others can become incorporators (however, should the incorporator be restricted in their capacity to act, conditions such as the agreement of a legal representative need to be fulfilled).

iii. Obligations of incorporators

Incorporators are obliged to subscribe to at least one share regardless of if incorporation is by establishment or by solicitation.

b. Examining and selecting basic policies and important items for establishing a company

Once the incorporators have been selected, the basic policies and important items related to establishing the stock company are to be selected through consultation between the incorporators. Although there is no legal obligation to save records of the facts behind these decisions, it is desirable to document them in an incorporator contract or agreement to prevent misunderstandings and conflicts at a later date.

The items to be selected by consultation of the incorporators include the purpose of establishment, method of establishment (incorporation by establishment or by solicitation), decisions on specific details to state in the articles of incorporation, general business plan and budget, selection of directors at incorporation, selection of the representative at incorporation, confirmation of the items entrusted to these representatives, and more.

i. Method of establishment

The methods of establishing a company are incorporation by establishment and incorporation by solicitation.

Incorporation by establishment is a method where incorporators subscribe to all shares issued at incorporation. On the other hand, incorporation by solicitation is a method where investments are also gathered from non-incorporators: incorporators only subscribe to some of the shares issued at incorporation, with the rest solicited to subscribers.

Choose the appropriate method when establishing a company according to its characteristics.

	Incorporation by establishment	Incorporation by solicitation
Subscribers of shares	Only incorporators subscribe to the shares.	Non-incorporators also subscribe to the shares
Pros	A company can be established with a small number of incorporators mutually trusting of each other.	More capital can be amassed compared to incorporation by establishment.
Cons	Difficult to amass a large investment on establishment.	More time is spent on administrative procedures, such as the need to hold organizational meetings, compared to incorporation by establishment.

ii. Representative at incorporation

The representative at incorporation are incorporators entrusted with the authority to execute administrative tasks related to establishing the company, as there is the risk that the procedures will become convoluted if multiple incorporators take on the tasks together. A benefit of this, for example, is that minor fixes of mistakes in the articles of incorporation will no longer require

the checking and approval of every incorporator, allowing corrections to be made by just the representatives at incorporation.

02. Creating the company framework

a. Creation and certification of the articles of incorporation

The articles of incorporation are the basic principles of the company, defining its structure and operations. The articles of incorporation have no effect unless the required items noted later are included, and will not take effect unless certified by a notary public.

In order to have the articles of incorporation certified by a notary public, the incorporators first submit the document to the notary public. The articles of incorporation are then signed or stamped by the incorporators and approved in the presence of the notary public, and this act is noted in the articles of incorporation by the notary public. Normally, three copies of the articles of incorporation are prepared for certification, of which one is kept by the notary public for 20 years, and one is returned to the incorporators as the original to be kept by the company. The remaining copy serves as a transcript of the certified articles of incorporation and attached to the application for company establishment registration.

b. Items to record in the articles of incorporation

Items to record in the articles of incorporation are categorized into a) required items, b) relative items, and c) optional items.

Required items

The articles of corporation have no effect without these items

Purpose

The company may only conduct business activities within the scope of the purpose decided upon in the articles of incorporation. The purpose found in the articles of incorporation must be clear and

specific.

Clarity refers to the clearness of the meanings behind phrases, which should be understandable by a regular person.

Specificity refers to avoiding the use of general/conceptual phrasing. However, the specificity of a company's purpose is not examined in the application for establishment registration, so the level of specificity with which a company states their purposes is up to the company. Caution should be taken as an overly abstract purpose may hinder clients' understanding of the business of the company and cause them to hesitate in doing business with the company. There have also been incidents where companies with vague purposes face difficulties when taking out loans from financial institutions or when getting licensed from a regulatory authority and examinations are delayed.

Additionally, the purpose of the company must not contain anything illegal.

(Example company purpose)

Example (i) Software development company

- Planning for the development of an information processing system
- Planning and investigation regarding IT systems
- Import and sales of IT devices and peripherals
- All business accompanying the above

Example (ii) Machinery import and sales company

- Import and sales of electronic/communications devices and accessories
- Import and sales of home appliances
- All business accompanying the above

Trade name

The trade name is the company's name and can generally be chosen at will. Note that, however, the following restrictions apply:

- The company's type must be included in the trade name.
 - E.g. For a stock company, "XX Co., Ltd." (or "XX K.K.", in line with the Japanese category of kabushiki kaisha)
- No characters other than Japanese

characters, alphabets, or punctuation approved by the Minister of Justice may be used.

– E.g. Symbols ("×", "÷"), shapes, patterns, etc., may not be used

- As dictated by law, there are phrases that can only be used by certain industries.
 - E.g. Banks, incorporated educational institutions, etc.
- A trade name maliciously selected to leave room for others to misunderstand it as the name of a different company will not be accepted

Location of head office

- The head office is the main business location of the company, and must be recorded in the articles of incorporation. Although it is sufficient to record the head office address down to the smallest municipal area (city, town, or village), the exact address of the head office down to the building number is required when applying for establishment registration

Value of assets invested at establishment or its lowest amount

- The amount of the company's share capital is decided based on the amount of capital the company needs, and the value of assets invested at establishment or its lowest amount are required items to be recorded on the articles of incorporation.
- Note that investments are generally only made in payments of money. In-kind contributions are only allowed for incorporators at incorporation, but the value of assets from in-kind contributions recorded in the articles of incorporation is to be a value agreed upon by the incorporators, instead of the relative fair value, which is subjective.

Names and addresses of the incorporators

- Individual incorporators record their names and addresses.
- Corporate incorporators record their names and main office addresses.

Total number of authorized shares

- This refers to the total number of shares the company can issue.
- Although it is stated to be a required item, it does not need to be defined by the time the articles of incorporation are certified. Even if the number of shares has not been decided upon at that time, it is sufficient to make the decision with the consent of all incorporators in the case of incorporation by establishment, and by an organizational meeting resolution in the case of incorporation by solicitation. Of course, the process for revising the articles of incorporation needs to be followed as the decision is made after certification.
- Although there is no upper limit to the total number of issuable shares for companies that restricts the transfer of all types of shares (privately owned companies), the total number of issuable shares for companies without this restriction (public companies) must not exceed four times the total number of shares at establishment. In other words, public companies must issue at least one quarter of their total issuable shares at the time of establishment.

i. Relative items

Although the omission of these items will not invalidate the articles of incorporation, they will not be effective unless recorded on the articles of incorporation. Chief items to record are as follows:

Items related to anomalous incorporation

1. Items related to in-kind contributions
Record the name of the investor of the in-kind contribution, details and value of the asset contributed in-kind, as well as the type and number of shares issued at the time of establishment allotted for the in-kind contribution.
2. Items related to received property
Record the details, value, and name

of the transferrer of the property promised to be transferred to the stock company after its establishment.

3. Compensation and other extraordinary income of incorporators

Record the details of compensation and other extraordinary income received by incorporators on the establishment of the stock company, as well as the names of the incorporators.

4. Establishment costs borne by the stock company

Costs for establishing a company include costs incurred by the notary public office (articles of incorporation certification fee, printing fee, etc.), costs incurred by banks (bank statement acquisition fee, etc.), and costs (registration license tax, etc.) incurred by the Legal Affairs Bureau (for establishment registration). Generally, these costs for establishing a company must be recorded in the articles of incorporation.

However, fees for the certification of the articles of incorporation, and other costs prescribed by Ministry of Justice Order as unlikely to cause harm to the stock company, do not have to be recorded.

An investigation by a court-appointed inspector must be conducted immediately after the articles of incorporation are certified for the items related to anomalous incorporation.

However, the in-kind contributions and received assets below are exempt from the investigation by the inspector.

- If the asset's value on the articles of incorporation is small (5 million JPY or less)
- If the asset is a security with market value and its value on the articles of incorporation does not exceed the market value
- If the asset has been certified by a legal professional, legal professional firm, Certified Public Accountant, audit firm, tax accountant, or tax accountant firm regarding the fair representation of the particular asset's value on the articles of incorporation (should the asset be real estate, appraisal by a real estate appraiser is also required)

Provisions related to restrictions on transfer for shares

- These provisions are those that state that, in general, company approval is required for those acquiring shares through transfer. The provisions have the purpose of preventing the possibility of shareholders unintended by the company purchasing shares and acquiring the company.
- Note that there is no need to specifically state the body responsible for making this approval (i.e., no need to state something in the lines of, "approval by a supervisory committee").

Provisions for class shares

- If trying to issue shares with different conditions such as dividends of surplus or whether there are restrictions on transfer, the articles of incorporation need to have a provision defining the total number of issuable class shares and the conditions of each class share.

Provisions for the issuance of share certificates

- Share certificates are generally not issued according to Japan's Companies Act. Therefore, a provision in the articles of incorporation is required should share certificates be issued.

Extension of directors' terms of office

- The terms of office for directors and auditors can be extended for up to 10 years for privately owned companies.

Method for making a public notice

ii. Optional items

Optional items can take effect regardless of whether they are recorded in the articles of incorporation, or if recorded via another method

Timing for calling annual shareholders' meetings

- Annual shareholders' meetings must be called within a defined period of time after the end of each fiscal year.

Chairperson of shareholders' meetings

- A chairperson does not need to be chosen every time a shareholders' meeting is called if someone, for example a representative director, is recorded as the chairman for shareholders' meetings in the articles of incorporation.

Number of directors and auditors

1. Number of directors

It is normal to record a number range, such as "X or more and up to Y". One or more directors are sufficient for a company without a Board of Directors, but a company with a Board of Directors will require at least three directors. If a provision regarding the minimum number of directors is included, a successor must be appointed when the Board falls below this minimum number due to reasons such as the resignation of a director. Until a new director is appointed and the role is assumed, the resigning director is obligated to continue in their capacity as a director.

2. Number of auditors

Companies With a Board of Directors require an auditor. Additionally, large public companies must have a Board of Company Auditors as long as they are not Companies With an Audit and Supervisory Committee or Companies With a Nominating Committee, Etc. This Board requires three or more auditors, at least half of which are outside company auditors.

Exclusion period of dividends

- c. A payment period for dividends of surplus can be set. Many companies set this period be 3 to 5 years from the provision of the surplus payment.

Patterns for designing corporate organs

A corporate organ refers to a group of people or a meeting body where decisions for the company are discussed and made. There is some freedom as to the choice of corporate organs depending on the scale and situation of the company. Although the choices are listed in the table below, it is roughly divided into four types depending on if the company is a large company or not, and if the company is public or not.



A “large company” refers to stock companies that fulfill any of the following requirements:

- i. The company has recorded 500 million JPY or more in share capital on the balance sheet of the most recent fiscal year.
- ii. The company has recorded 20 billion JPY or more in liabilities on the balance sheet of the most recent fiscal year.

A “public company” is a stock company that does not have a provision in its articles of incorporation stating that approval by the company is required for the acquisition by transfer of all or some of the shares issued by the company. Although companies listed on a stock exchange are public companies, caution is required as public companies defined under the Companies Act do not necessarily have to be listed on a stock exchange.

Large companies								
	Director	Board of Directors	Auditor	Board of Company Auditors	Audit and Supervisory Committee	Financial auditor	Three committees 1	Accounting advisor 2
Non-public companies	Yes		Yes			Yes		
	Yes	Yes	Yes			Yes		
	Yes	Yes	Yes	Yes		Yes		
	Yes	Yes			Yes	Yes		Optional
	Yes	Yes				Yes	Yes	
Public companies	Yes	Yes	Yes	Yes		Yes		
	Yes	Yes			Yes	Yes		
	Yes	Yes				Yes	Yes	
Medium and small companies (non-large companies)								
	Director	Board of Directors	Auditor	Board of Company Auditors	Audit and Supervisory Committee	Financial auditor	Three committees	Accounting advisor
Non-public companies	Yes							
	Yes		Yes					Optional
	Yes		Yes			Yes		
	Yes	Yes						Yes
	Yes	Yes	Yes					
	Yes	Yes	Yes	Yes				
	Yes	Yes	Yes			Yes		
	Yes	Yes	Yes	Yes		Yes		
	Yes	Yes	Yes	Yes		Yes		
	Yes	Yes			Yes	Yes		Optional
Public companies	Yes	Yes	Yes					
	Yes	Yes	Yes	Yes				
	Yes	Yes	Yes			Yes		
	Yes	Yes	Yes	Yes		Yes		
	Yes	Yes			Yes	Yes		
	Yes	Yes				Yes	Yes	

The three committees are the nominating committee, audit committee, and compensation committee. Companies with these three committees are known as Companies With a Nominating Committee, Etc. under the Companies Act.)

Refers to the person responsible for creating income statements, balance sheets, and other financial statements in cooperation with directors and other executives, and not someone with the task of conducting audits. Tax accountants (including tax accountant corporations), or Certified Public Accountants (including audit firms) may become accounting advisors. Note that accounting advisors may not assume roles such as director, auditor, financial auditor, or manager, etc., of the company or a subsidiary at the same time.

d. Certification of articles of incorporation by the notary public office

After the articles of incorporation are created, they need to be certified by a notary public. This certification has the notary public check whether the articles of incorporation have been truthfully created according to laws and regulations, and clarifies the responsibilities attributed to the incorporators. In order to receive certification, a certification by a public notary belonging to the legal affairs bureau of where the company head office is located or the local legal affairs bureau. In addition, although the general rule is that all incorporators visit the notary public office, a proxy can be used for certification if the proxy has a letter of attorney for all incorporators unable to visit the office, a seal registration certificate issued by the municipal leader, and the actual seal and seal registration certificate of the proxy.

Documentation required for certifying the articles of incorporation

3. Three copies of the articles of incorporation

4. Seal registration certificates of all incorporators (if a company is the incorporator, the seal registration certificate of the company's representative and the company's registration certificate are required) (originals)

If the incorporator is a Chinese corporation, certification documents issued by a public body proving the company's existence and containing the representative's name, such as an operating permit issued by the Chinese State Administration for Industry and Commerce, are required (originals).

Registered seal and seal certificate, or approval by signature by the representative of the incorporator (originals)

(Note) It is desirable to prepare something that has been translated into Japanese. Individual confirmation at the notary public office is required if no Japanese translation is available.

5. Letter of attorney (when certification is done by a proxy)

6. Registered seal and seal certificate of the proxy (when using a proxy)

7. Registered seal of the incorporator (or proxy) going to the notary public office

An electronic certification system has been adopted since April 1, 2007. This electronic certification system enabled certification over the internet and eliminated the need for the 40,000 JPY revenue stamp when submitting through paper.

If a Chinese corporation is the incorporator having their articles of incorporation certified, it is important that the scope of the business purpose of the company in China includes becoming the incorporator of a company established in Japan.

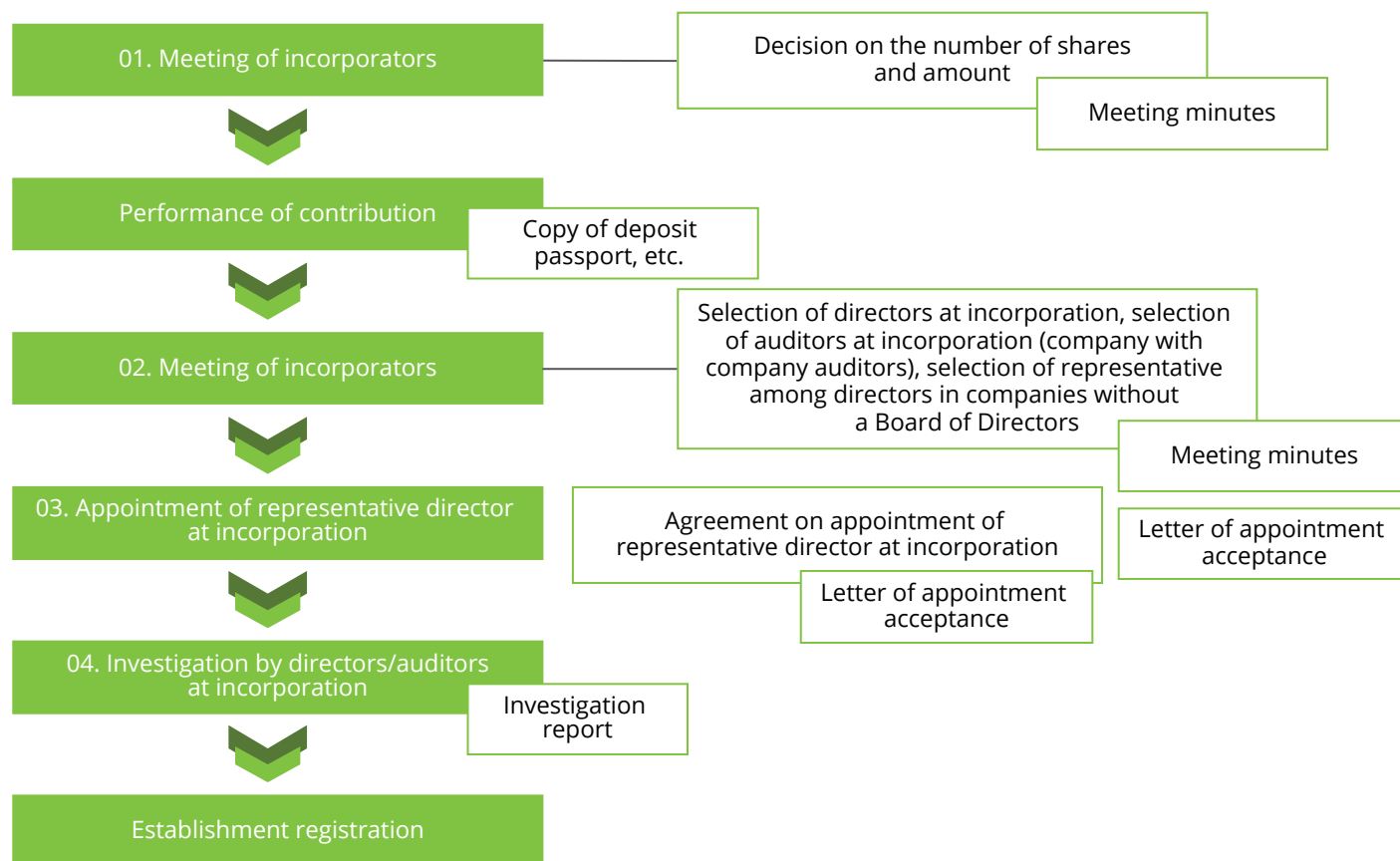
03. Raising capital and creating an organization for the company

Incorporation by establishment and incorporation by solicitation are methods for establishing a stock company. Each method is explained below.

When incorporating by establishment

When incorporating by establishment, the incorporator is the only shareholder. A copy of the financial institution's deposit passbook or bank statement is sufficient for proof that the stockholder's payment of share capital has been received (in-kind contributions require separate consideration).

Flow of incorporation by establishment after the articles of incorporation have been certified



1. Hold a meeting of incorporators, make decisions on subscription of shares and payment amount, and have the subscribers perform their contribution.

Contribution is performed after the incorporators decide on the number of subscription shares and their price. After contribution has been performed, documentation such as a copy of the financial institution's deposit passbook is prepared.

Establishing a company in Japan is different than in China in that contributions after establishment registration and contributions in multiple parts are not accepted. Therefore, completion of share capital contribution is required for establishment registration.

In Japan, contribution of share capital needs to be factually complete before the company can undergo establishment registration. Accordingly, the following actions are forbidden:

- a. Mutual deposits

Colluding with directors of the payment financial institute to pretend that an investment payment has been made.

- b. Pretense money

Take a loan from another financial institute or loaner, use it as payment money and return the loan after the company is established.

2. Hold a meeting of incorporators and appoint directors/auditors at incorporation.

The Companies Act defines the directors and auditors appointed when establishing a company as the "directors at incorporation" and "auditors at incorporation". Directors/auditors at incorporation become directors and auditors at the same time as the formation of the company.

Directors/Auditors at incorporation are appointed by a majority vote by the incorporators. Incorporators are given one vote for each share issued at establishment where contribution has been fulfilled. Note that those declared in the articles of incorporation are deemed as appointed when their contribution has been fulfilled.

In addition, directors/auditors at incorporation are to sign and stamp an appointment consent form.

3. Appoint a representative director at incorporation.

If the company being established is a company with a Board of Directors, there will be no Board of Directors while the company is in the process of establishment. Therefore, the Board of Directors does not appoint the representative director at incorporation, but the person is appointed via majority vote by the directors at incorporation.

Note that there is no need to separately appoint a representative director at incorporation if one is defined in the articles of incorporation.

4. The directors/auditors at incorporation investigate items of incorporation.

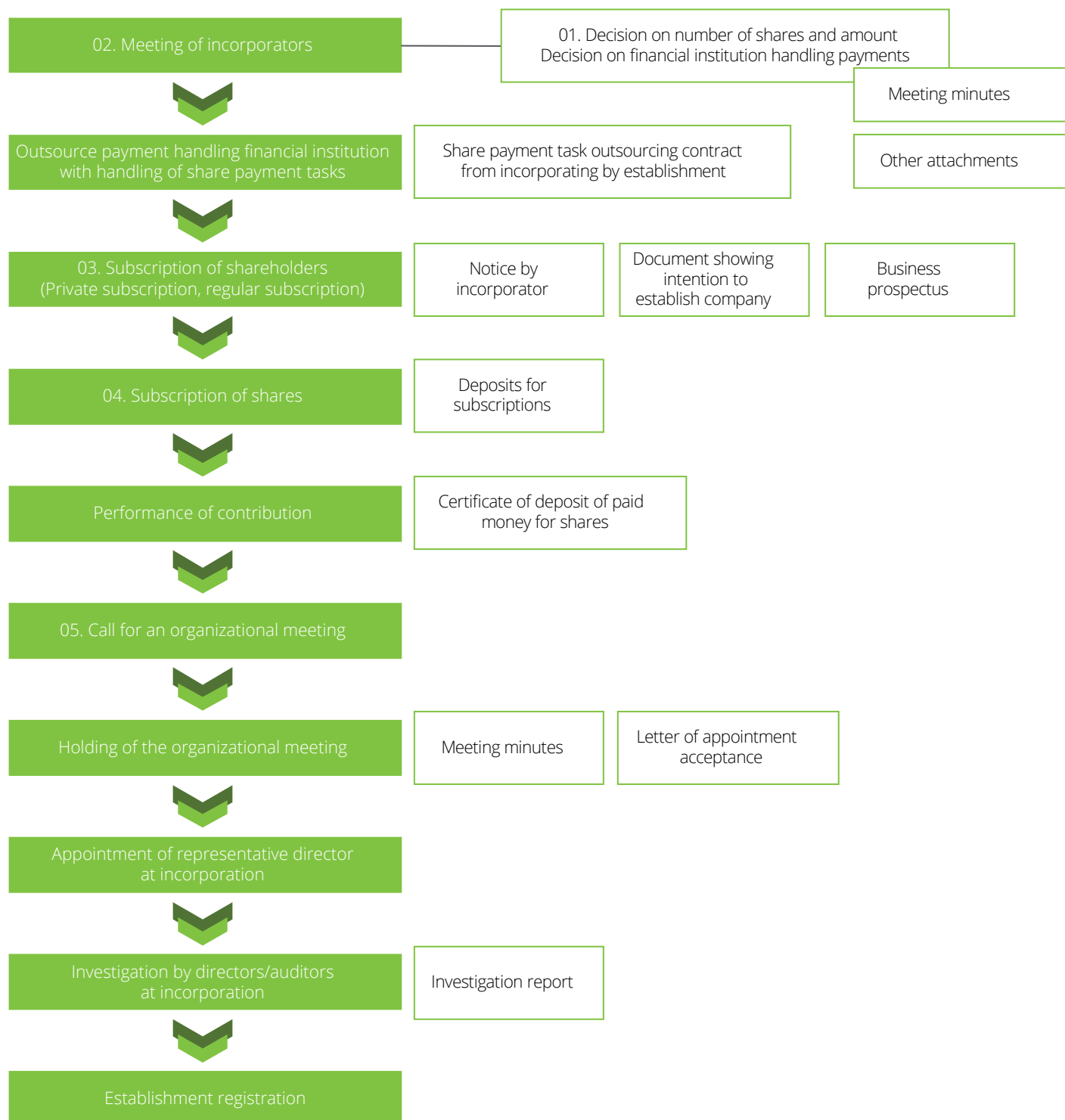
Directors/auditors at establishment must investigate the items of incorporation. Additionally, the results of this investigation have to be recorded in a report. The following are the items to investigate:

- a. Whether assets such as in-kind contribution assets are recorded in the articles of incorporation, and their recorded values are appropriate
- b. (Limited to when the total value stated in the articles of incorporation does not exceed 5 million JPY, or when the market value of securities with a market value does not exceed the amount stated in the articles of incorporation)
- c. Whether assets such as in-kind contribution assets are recorded in the articles of incorporation, and their recorded values are appropriate as certified by a lawyer or similar person
- d. Whether contributions have been fulfilled
- e. Other the above, whether there are any stock company establishment procedures that violate laws or the articles of incorporation

When incorporating by solicitation

Different from incorporation by establishment, incorporation by solicitation requires processes such as the solicitation of shareholders and holding organizational meetings. The performance of contributions by incorporators are omitted in this section as they are the same as in incorporation by establishment.

Flow of incorporation by solicitation after the articles of incorporation have been certified



1. Select a bank.

Incorporation by solicitation is different from incorporation by establishment in that share capital is paid in and a bank can certify that the capital has been deposited. As such, a bank that handles share capital payment processes must be selected.

When selecting a bank, choosing a bank with which you have a transaction history is believed to facilitate the transaction.

Note that the required documentation should be checked with the bank ahead of time.

2. Hold a meeting of incorporators and decide on a share subscription and payment amounts.

The incorporators will decide on items pertaining to the issued shares. The details of these items, as well as selection and outsourcing to a payment handling financial institution, are the same as when incorporating by establishment.

In incorporation by solicitation, the shares remaining after subtracting the number of shares subscribed to by the incorporators from the total number of issued shares at establishment are solicited to non-incorporators.

3. Solicit for shareholders.

Shareholder solicitation methods include private solicitation and regular solicitation.

Private solicitation is a method that solicits shareholders from relatives, friends, and other acquaintances. On the other hand, regular solicitation is a method that widely solicits shareholders from the public. In regular solicitation, the incorporators create a letter of intent or prospectus for the company, and there is a need to have a clear business description and vision in order to gain the understanding of third parties.

Additionally, there is generally a need to submit a Securities Registration Statement when solicitation for subscription is conducted for 50 or more people, in accordance with the Financial Instruments and Exchange Act. As such, handling such as consultation with a lawyer is required when planning to conduct a broad-reaching solicitation in an incorporation by solicitation.

4. Notification by incorporators, application for share subscription, allotment, and payment.

In order to disclose an outline of the company and conditions for subscription, incorporators must notify those applying to subscribe to shares of the following items:

Items to be notified by the incorporator

1. Date the articles of incorporation was certified and the name of the certifying public notary
2. Required items of the articles of incorporation
3. Items related to anomalous incorporation on the articles of incorporation
4. Number of shares issued at establishment allotted to the incorporators and the amount of money paid in, and items related to the share capital and capital reserve amounts post-formation
5. Number of shares solicited at establishment. Amount paid-in and payment deadline or payment period, a statement that subscriptions for shares solicited at establishment may be rescinded when the registration of incorporation is not complete by a certain date, and a statement of the certain date.
6. Amount of the assets invested by the incorporators
7. The location at which the payment by the subscribers of shares solicited at incorporation will be handled
8. Other items described in Ministry of Justice orders (common items listed below):
 - a. The name, address, and office of the shareholder register administrator when there are provisions for having a shareholder register administrator
 - b. Items to be notified by incorporators as requested by those applying for shares solicited at incorporation

When an application is made from a non-incorporator, incorporators are to allot the shares subscribed from non-incorporators to the applicant. This allotment can be freely made by the incorporators. The applicant receiving the allotment pays the allotted amount as application money.

Although there are times when the incorporators make a lump-sum payment with the application money collected from the applicants, it can also be kept as a deposit in the account detailed above in (7). If this is done, a transfer will be made by the share payment handling bank on the payment deadline of the shares, and the application money will act as the amount to be paid for the allotment. Once the payment is complete, the incorporators are to collect a certificate of deposit of paid money for shares from the payment handling bank.

5. Call and hold an organizational meeting.

There is a need to hold an organizational meeting after share subscription and performance of contribution are complete.

Incorporators must issue a notice to share subscribers in order to hold the organizational meeting. The meeting must be called without delay after the payment deadline.

Note that notices must be issued one week before the organizational meeting is held. Notices must be issued at least two weeks in advance if the company being established is a public company.

The agenda for an organizational meeting is as follows.

Organizational meeting agenda

1. Receive reports on the items of incorporation by incorporators
2. Approve changes to articles of incorporation
3. Decide on the total number of issuable shares
4. Appoint directors at incorporation and auditors at incorporation
5. Receive investigation reports on establishment processes

Other processes are the same as in incorporation by establishment.

Incorporation by establishment and incorporation by solicitation are methods for establishing a stock company. Each method is explained below.

04. Company establishment registration

Although the company is practically established by this part of the process, the company is officially formed by undergoing establishment registration according to the establishment procedures, upon which it gains legal personality.

For incorporation by establishment, establishment registration must be conducted within two weeks of the day when the establishment investigation by the director at incorporation is complete, or the day specified by the incorporators, whichever is later. For incorporation by solicitation, establishment registration must generally be conducted within two weeks of the conclusion of the organizational meeting. Registration must be conducted at the legal affairs bureau with jurisdiction over the area in which the company head office is located.

Registration application can be conducted by submitting the establishment registration application form to the register office in person, mailing the application form to the register office, or applying online

1. Items to record on the establishment registration application form

- a. The applicant's trade name, name and location of the head office, name and location of the representative
- b. The applicant is normally a representative director at incorporation.
- c. Although application required that "at least one representative director of a domestic stock company has to have a Japanese address, or else the application for establishment registration will not be processed" (September 26, 1984 Civil-4 No. 4974 reply from Civil Affairs Bureau Section 4 chief, and March 11, 1985 Civil-4 No. 1480 reply from Civil Affairs Bureau Section 4 chief), the Ministry of Justice abolished this requirement on March 16, 2015, enabling foreign nationals not living in Japan to establish a Japanese corporation (often referred to as the "abolishment of residence requirements").
- d. The proxy's name and address, when the application is made through a proxy
- e. Reason for registration (incorporation by establishment/solicitation process finished)
- f. Items to be registered
- g. As there are many options for the items to be registered, they can be submitted by recording onto magnetic media such as a CD-R, or using an online registry/deposit application service. Include on the application form "as in the attached CD-R" when doing so.
- h. The amounts of any registration and license tax, as well as the tax base for this
- i. Date of application

2. Attachments

a. Articles of incorporation (transcript)

b. Letters of appointment for directors, etc., at incorporation

For incorporation by establishment and when not defined in the articles of corporation, appointments are made through the majority agreement of incorporators, so the agreement letter must be submitted. For incorporation by solicitation, meeting minutes of the organizational meeting will need to be attached.

c. Letters of appointment for representative directors at incorporation

As appointments are made through the majority agreement of directors at incorporation in a company with a Board of Directors, the agreement letter must be submitted. For companies that do not have a Board of Directors, it is sufficient to attach the articles of incorporation containing the names of the representative directors at incorporation, so there is no need to attach a separate document.

d. Appointment acceptance letters for directors and representative directors at incorporation

e. Letter of agreement related to the shares on establishment from all incorporators -a

If the number of stocks issued at establishment allotted to incorporators, the contribution amount, and total number of authorized shares are not defined in the articles of incorporation, they must be defined with the consent of all incorporators, and the letter of consent submitted as an attachment.

f. Letter of agreement related to the shares on establishment from all incorporators -b

Items related to shares solicited at establishment, such as number of shares solicited at establishment, contribution amount, or contribution deadline or period, must be defined with the consent of all incorporators, and the letter of consent submitted as an attachment.

g. Documentation that certifies shares have been applied for -b

A certificate of share application or certificate from a payment processing institution which certifies that there have been applications to subscribe to the shares solicited at establishment must be attached.

h. Documentation that certifies the performance of contribution

For incorporation by establishment, it is sufficient for the representative directors at incorporation to create and attach documentation certifying the amount paid to the payment treatment institute and a copy of a deposit passbook of the payment treatment institute. For incorporation by solicitation, a certificate of deposit of paid money from the payment handling institution is required.

i. Minutes of organizational meetings -b

j. Investigation report by directors and auditors -b

k. Investigation report by investigators or directors at incorporation -c

l. Certificate by lawyers, etc. -c

See the aforementioned "items related to anomalous incorporation".

m. Documentation that certifies the market price of a security at an exchange -c

See the aforementioned "items related to anomalous incorporation".

n. Trial manuscript related to the investigator report -c

Required when there is a trial related to the investigator report.

o. Certificate from the representative director at establishment certifying that the share capital amount has been recorded according to the Companies Act and the company financial document regulations

Although the attachment of this certificate may be omitted when the invested assets consist only of money, it cannot be omitted when there are in-kind contributions.

p. Power of attorney

Required when the establishment registration application is entrusted to a proxy

3. Submission of stamps

Representative directors at incorporation stamping the registration application form must submit their stamps to the register office at the same time as when they submit the registration application form. Specifically, the required items on the specified stamp notice form must be filled out, and the personal stamp and stamp certificate of each individual must be attached for submission (note that the company representative's stamp is also used on the notice form).

When a foreign national is the applicant, a stamp certificate can be obtained if the person is a registered alien. If the person is not a registered alien, a signature can be used in place of a stamp on the stamp notice form, with the attachment of a certificate from the authorities of the person's domicile country which certifies the signature as that of the person's.

05. Notification of report to the Bank of Japan

As the act of establishing a subsidiary in Japan performed by a Chinese corporation is deemed as a foreign direct investment, the acquisition of shares or dividends related to the foreign direct investment must be reported by the 15th of the month following the month of the day of acquisition to the Finance Minister and the minister in charge of the business through the Bank of Japan.

Prior notice should be given before establishing the company for some industries; refer to "III. Regulations on foreign investors investing in Japan" for details. Post reporting is required even if prior notice is not needed for the particular industry.

Note that a specialist should be consulted when actually submitting notifications and reports

06. Approximate cost of establishment

Item		Cost for a stock company
Share capital		1 JPY or more; no restrictions exist on minimum share capital
Certification of articles of incorporation	Stamp for articles of incorporation	40,000 JPY
	Certification processing fee	50,000 JPY
	Transcript issuance processing fee	250 JPY for each copy of the articles of incorporation
Bank	Fees for processing payments, issuing certificates of deposit of paid money, etc.	About 2.5/1000 of the contribution Varies depending on the bank
Establishment registration	Registration permit tax	7/1000 of share capital Or number of applications when below 150,000 JPY 150,000 JPY for each application
	Registration certificate	About 1,000 JPY for each copy
Others	Stamp creation (representative company stamp, personal stamp, bank stamp, etc.)	20,000 to 50,000 JPY
	Processing fees for the stamp certificate	About 500 JPY for each copy

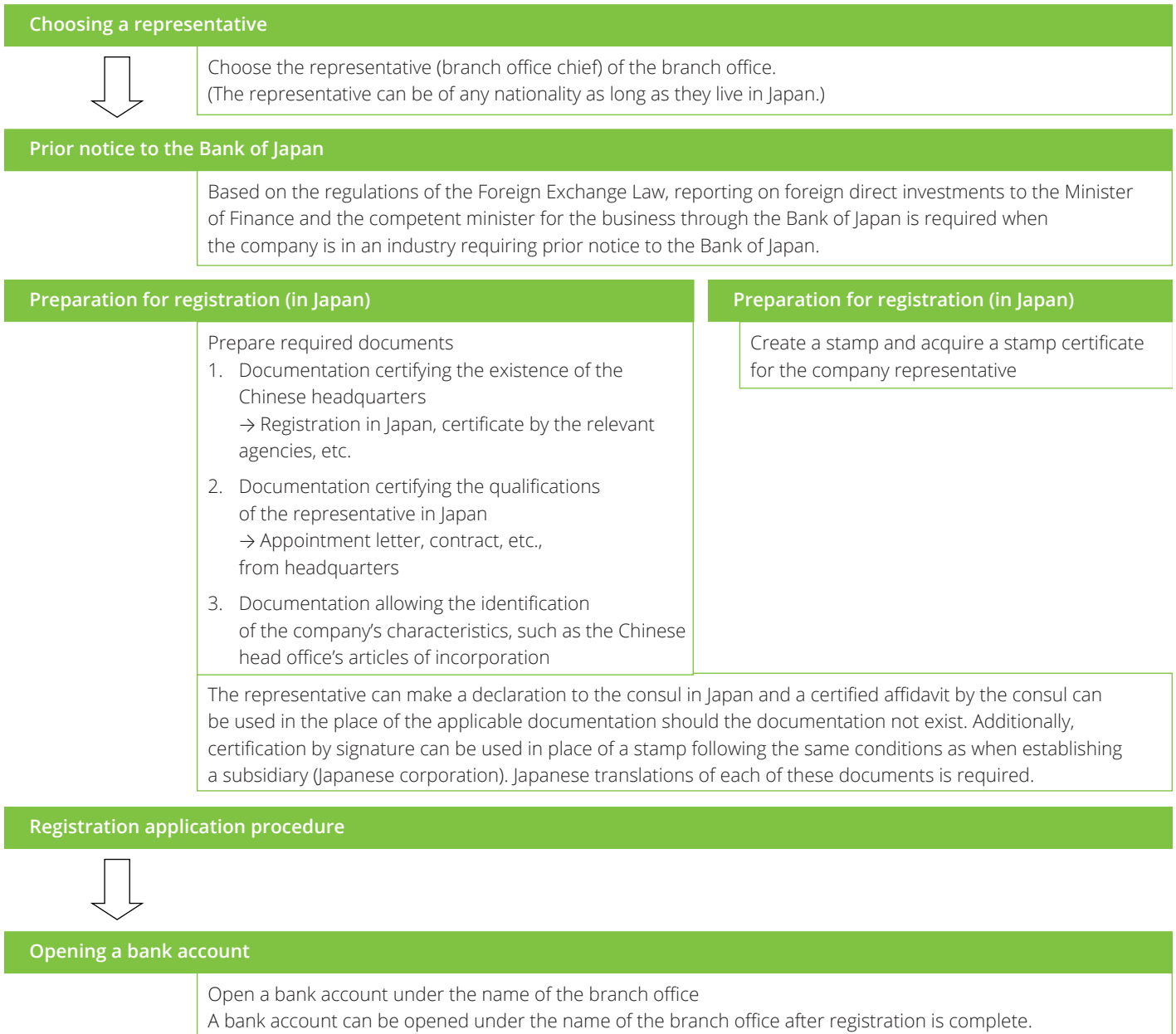
02. Opening a sales office (Japanese branch)

Opening a Japanese branch is the simplest method for establishing an operating base when a foreign company will conduct sales activities in Japan. Foreign corporations can conduct sales activities in Japan by securing a location, choosing a representative, and registering the required items. There is no restriction on the nationality of the representative in this case, but the person must live in Japan (the aforementioned March 16, 2015 abolishment of residence conditions does not apply here).

A sales office is different from establishing a foreign company subsidiary (Japanese corporation) in that the branch office is not deemed as a judicial person. However, bank accounts can be opened and rental contracts for offices can be signed under the name of the branch office through registration.

The following is the flow for opening a branch office:

1. Flow for opening a branch office



03. Establishing a representative office

A representative office refers to the activity base established to conduct preparations before a foreign company starts its full expansion into Japan. Although these offices cannot conduct sales activities in Japan, they can be used to station employees in Japan and conduct market research, information collection, advertising, and other similar activities. Neither an application to register with the Legal Affairs Bureau, nor notification and report to the Minister of Finance and competent minister for the business, are required when establishing a representative office.

However, as a representative office cannot become the main party of contracts, it cannot be used to open a bank account under the company's name or rent real estate. These contracts need to be signed with the Chinese head office. In addition, consideration is required regarding mandatory visa requirements when seconding employees from the Chinese head office, as the type of visa that becomes necessary depend on the representative office's purpose and the role of the employee being stationed at the office.

Reference

Opening a bank account

As a bank account cannot be opened under the company's name, an account is opened under the name of the representative of the representative office.

<Required documentation>

- Passport of the representative
- Certificate of alien registration of the representative
- Introduction to the company
- Lease agreement
- Bank stamp



VI. Operating a company

A system for making decisions on the business of the company and executing operations is needed in order to operate a company. It is also important to hire employees and carry out operations by dividing responsibilities among employees in order to expand the business.

This section will describe the corporate organs which serve as the systems for operating the company, and the hiring of employees, which is important for operating the company.

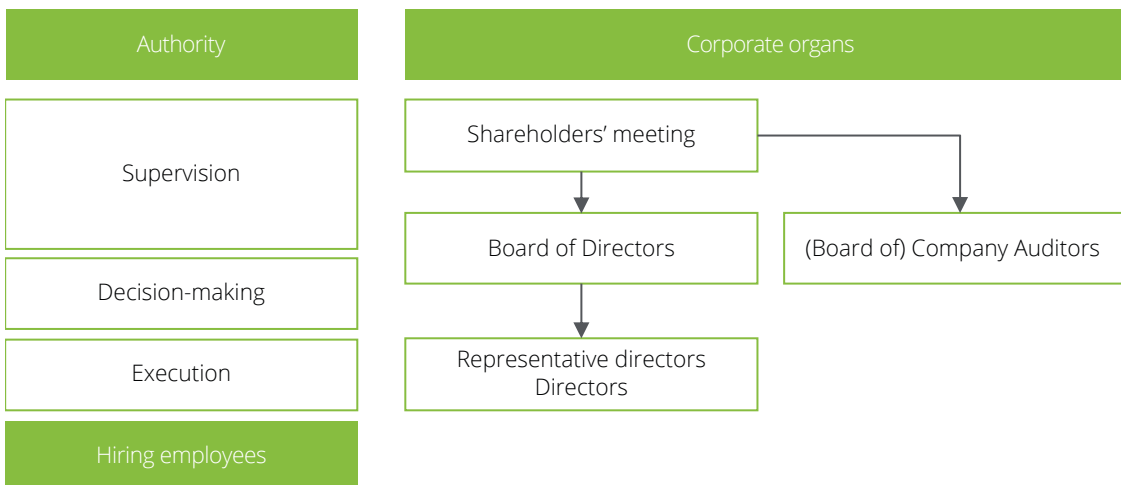
01. Corporate organ

The Companies Act defines a corporate organ, or the basic system of a company, for each type of company. For stock companies, a shareholders' meeting and directors are sufficient for companies that are not a large⁷ public⁸ company, but large public companies also need a Board of Directors and accounting auditors. In this way, regulations vary based on the scale of the company. Additionally, a company can also choose to have corporate organs that are not required to a certain extent.

Which corporate organs to choose can be thought of as an issue of how to delegate authorities of the company. In other words, by delegating (1) decision-making, (2) execution, and (3) supervision authority from shareholders to corporate organs, a stock company can enable the appropriate and speedy operation of the company. The authorities to delegate depend on the company's business goals and operating policies. It is best to compare the benefits and costs from establishing corporate organs, and design them to align with the company's business goals and operating policies.

The chart below explains common corporate organs for a stock company. Explanations for Companies With a Nominating Committee, Etc., Companies With an Audit and Supervisory Committee, and accounting advisors are omitted as they are only chosen by some stock companies.

Design of corporate organs for a common stock company



⁷ A company with a share capital of 500 million JPY or more on the balance sheet of the most recent fiscal year, or total debt of 20 billion JPY or more (Companies Act 2-6).

⁸ A company for which all issued shares have restrictions on transfer to those outside the company (Companies Act 2-5).

1. Shareholders' meeting

a. Significance and authority

The shareholders' meeting is made up of the stockholders, who are the owners of the company, and is the highest decision-making organ of a stock company. All stock companies must have this organ.

For companies without a Board of Directors, the shareholders' meeting may resolve all matters of the company such as its organization, operations, and administration (Companies Act 295-(1)). For Companies With a Board of Directors, the shareholders' meeting has the authority to resolve basic matters of the company (Companies Act 295-(2)). Basic matters of the company are provided for in the Companies Act, and the articles of incorporation can also define matters⁹. These basic matters include the appointment and dismissal of directors, dividends of surplus, etc.

b. Calling a meeting

Shareholders' meetings are categorized into annual shareholders' meetings held regularly once a year, and special shareholders' meetings held whenever necessary (Companies Act 296-(1) and (2)).

For public companies, a notice must be issued in writing to shareholders at least two weeks before the shareholders' meeting is held, in order to give shareholders a chance to prepare (Companies Act 299)¹⁰.

c. Meeting matters and resolution

Meeting matters at the shareholders' meeting proceed according to internal regulations such as the articles of incorporation and internal practices. Regarding the meeting matters, minutes must be prepared with respect to the matters in accordance with Ministry of Justice orders (Companies Act 318-(1)).

Generally, a shareholders' meeting is valid when attended by the shareholders with the majority of the votes¹¹. Each shareholder generally has one vote for each share owned¹² (Companies Act 308-(1)).

Resolutions are separated into normal resolutions, extraordinary resolutions, and special resolutions. Normal resolutions are generally reached with the majority vote of the shareholders in attendance¹³. Extraordinary resolutions are generally reached with two-thirds or more of the vote of the shareholders in attendance. Special resolutions have different requirements depending on the matter being resolved.

Examples of matters requiring resolution at the shareholders' meeting are listed below. The more important a matter is, the greater its requirements for resolution are.

⁹ Companies With a Board of Directors can expand the matters resolved at shareholders' meetings by including them in the articles of incorporation (Companies Act 295(2)).

¹⁰ The time period for calling a meeting can be reduced, or the process omitted, with the agreement of all shareholders.

¹¹ The number of attending shareholders needed for establishing a shareholders' meeting is called the "quorum". The quorum can be increased/decreased to a certain degree in the articles of incorporation (Companies Act 309-(1) and other provisions).

¹² Does not include types of shares with conditions on voting rights, such as shares with restricted voting rights. Additionally, if the share unit system is used, one share unit (100 shares if one share unit is 100 shares) is interpreted as one vote (Companies Act 308-(1)).

¹³ Resolution requirements can be increased/decreased based on the articles of incorporation (Companies Act 309-(1)).

Resolution

Normal resolution	<ul style="list-style-type: none"> • Appointment and dismissal of directors (Companies Act 329-(1) and 339-(1)) • Acquisition of treasury stock approved by the Board of Directors (Companies Act 156-(1)) • Appointment of auditors (Companies Act 329-(1)) • Compensation of directors and auditors (Companies Act 361-(1), 387-(1)) • Appointment and dismissal of financial auditors (Companies Act 329-(1) and 339-(1)) • Approval of financial statements (Companies Act 438-(2)) • Dividends of surplus (Companies Act 454)
Extraordinary resolution	<ul style="list-style-type: none"> • Change to articles of incorporation (Companies Act 309-(2)-11, 466) • Dismissal of auditors (Companies Act 309-(2)-7) • Reduction of share capital amount (normal resolution when it is for deficit disposition) (Companies Act 309-(2)-9, 447-(1)) • Purchase of treasury stock from specific shareholders (Companies Act 309-(2)-2, 156-(1), 160-(1)) • Decision on matters such as discounted issuing of shares for subscription (Companies Act 309-(2)-5, 199, and other provisions) • Decision on transfer of business • Approval and resolution on mergers, share exchanges, share transfers, and splits • Dissolution of company
Special resolution	<ul style="list-style-type: none"> • All resolutions when shares are changed to shares with restrictions on transfer due to a change to the articles of incorporation or an organizational restructuring¹⁴. • Change to the articles of incorporation such as a change to dividends of surplus, distribution of residual assets, or when undergoing different handling for each shareholder and their votes¹⁵

d. Vote ratio and degree of control

The acquisition of shares changes the acquirer's control over the shareholders' meeting depending on what percentage of the votes the person holds. The table below shows a simple summary of the effect on shareholders' meeting resolutions.

Percentage of votes held	Effect on shareholders' meeting resolutions
Over one third	Prevent extraordinary resolutions
Half or more	Prevent normal resolutions
More than half	Can establish normal resolutions
Two thirds or more	Can establish extraordinary resolutions
90% or more	Can decide on simplified organizational restructuring

Note)

1. The above table is a summary and caution is required in that the effect on resolutions may change depending on provisions in the articles of incorporation or the existence of class shares.

2. "Percentage of votes held" refers to the percentage of votes held out of all shareholders attending the shareholders' meeting unless defined otherwise in a law.

¹⁴ Requires at least half of the number of shareholders with voting rights and at least two-thirds of the votes to be in agreement (Companies Act 309-(3)).

¹⁵ For non-public companies, requires at least half of the number of shareholders with voting rights and at least three-quarters the votes to be in agreement (Companies Act 309-(4))

2. Directors and Board of Directors

a. Significance and authority

As the shareholders' meeting is a council made up of shareholders, there is a chance that the company will be less mobile in its management if the shareholders' meeting becomes responsible for making all decisions for the company. Additionally, it is not practical for the shareholders' meeting, which is a council, to represent the company in transactions with third parties. By giving the authority to execute operations and other management to the directors and/or the Board of Directors, a more mobile and appropriate execution of operations can be achieved.

In Companies Without a Board of Directors, decisions on the execution of operations are made with the majority vote of directors, with each director executing operations independently. In Companies With a Board of Directors, the Board of Directors chooses representative directors and/or executive directors from among the directors, who then execute operations.

In Companies With a Board of Directors, the Board of Directors makes decisions on the execution of operations and supervises the directors in the performance of their duties. A Board of Directors is mandatory in public companies and Companies With a Board of Company Auditors, while other companies can have a Board of Directors by having a provision in their articles of incorporation. At least three directors are required when creating a Board of Directors. A Board of Directors is made up of all directors in the company, meets at least once every three months, and must create minutes of these meetings. A Board of Directors meeting is established when the majority of directors are in attendance, and resolutions are made with the majority vote of those in attendance¹⁶. The following matters are legally mandated as things to be decided upon by the Board of Directors.

Example of statutory matters to be decided upon by the Board of Directors

- Disposal or transfer of important assets
- Borrowing of significant amounts
- Appointment or dismissal of managers and other important employees
- Establishment, modification, and dissolution of branch offices and other important organizations
- Important matters related to the subscription of bonds
- Establishment and management of a system to ensure that the execution of operations by directors is in accordance with laws and the articles of incorporation, as well as a system to maintain the appropriateness of other work done by the company and corporate group
- Exemption of responsibilities for directors to the company provided in the articles of incorporation
- Approval of transfer for shares or share options with restrictions on transfer
- Decision on acquisition price, etc., of treasury shares, acquisition of treasury shares in a subsidiary, acquisition of treasury shares through market transactions and other methods provided in the articles of incorporation, cancellation of treasury shares
- Acquisition of shares subject to call
- Share split/shares without contribution
- Decisions on solicitation matters for shares for solicitation and share options for a public company
- Decision to call a shareholders' meeting
- Appointment or dismissal of representative directors
- Approval for director non-competition transactions and conflicting interest transactions
- Approval of financial statements, business reports, and annexed detailed statements
- Reductions in the amounts of share capital and reserves conducted at the same time as when shares are issued¹⁷
- Interim dividends provided for in the articles of incorporation

¹⁶ The quorum and resolution requirements can be added to through the articles of incorporation.

¹⁷ Limited to when the reduced share capital/reserve amount does not go under the share capital/reserve amount before shares were issued (Companies Act 447-(3), 448-(3)).

For companies that are not Companies With a Board of Directors, if the company has one director, the director has comprehensive authority over the execution of operations unless otherwise provided for in the articles of incorporation (Companies Act 348-(1)). If there are two or more directors, business decision-making is done with the majority vote of the directors unless otherwise provided for in the articles of incorporation (Companies Act 348-(2)).

b. Appointment and dismissal

Directors are limited to natural persons, meaning that corporations may not become directors (Companies Act 331-(1)). From an auditor independence perspective, it is not allowed for directors to concurrently act as auditors of the company or the company's parent company (Companies Act 335-(2)).

Directors are generally appointed through a decision at a shareholders' meeting and retire when their term of office expires (Companies Act 329-(1), 332-(1) and other provisions). Additionally, the shareholders' meeting that appointed a director may dismiss the director through a normal resolution at any time for any reason (Companies Act 339-(1)).

c. Director duties and liabilities

i. Fiduciary duty

As a director is in a delegation relationship with the stock company, a director is duty-bound to act as a good manager in the execution of their tasks (Companies Act 330, Civil Code 644). The degree of this duty is to the normal degree expected of the director given their position and the situation. Additionally, the duty to supervise the execution of operations of other directors is also part of the Board of Directors' fiduciary duties.

ii. Duty of loyalty

A director must comply with laws and regulations, the articles of incorporation, and resolutions at shareholders' meetings, and conduct their duties for the company in a loyal manner (Companies Act 355).

iii. Duty to avoid competition

When a director conducts a transaction for themselves or for a third party where this act will place them in a competing relationship with the company, they must receive approval by the Board of Directors before conducting the transaction (Companies Act 356-(1)-1).

iv. Conflicting interest transactions

Referring to transactions made for the benefit of the director or a third party at the expense of the company, these transactions are categorized into direct transactions conducted between the company and its directors, and indirect transactions conducted between the company and a third party. Prior approval by the Board of Directors is needed for both of these types of transactions (Companies Act 356-(1)-2, 3).

v. Responsibilities of the director

When a director causes damage to the company due to a failure to fulfill their duties, the director is liable to compensate for the resulting losses. Lapse in judgment, failure to act, and other factors result in directors bearing this responsibility, and cases where a director's failure to act is questioned have been increasing. For example, there are many cases where directors other than the one in question are accused of violating their duty to conduct supervision.

3. Auditor or Board of Company Auditors

a. Significance and authority

The auditors are a corporate organ that audits the directors as they execute their duties, and have the authority to supervise the operational execution of directors.

Quick business management is possible by deferring decision-making and authority for the execution of operations to directors or the Board of Directors. However, directors or the Board of Directors may prioritize benefitting themselves or failing to fulfill their duties while undertaking this mission, resulting in situations that negatively affect the benefits to shareholders. In order to prevent these situations from happening, auditors can be put in place to audit the operational execution of directors.

b. Obligations to have auditors

Companies with Financial Auditors, such as Companies with a Board of Directors or large companies, are obliged to have auditors. Additionally, large public companies are obliged to have a Board of Company Auditors made up of at least three auditors (Companies Act 328-(1), 335-(3)), unless it is a company with an audit and supervisory committee or a company with a nominating

committee. Companies with Financial Auditors must have at least half of their auditors as outside company auditors¹⁸ (Companies Act 335-(3)).

c. Qualifications

Auditors are limited to natural persons, meaning that corporations may not become auditors (Companies Act 335-(1), 331-(1)). Additionally, the following people are not allowed to take on concurrent posts as effective auditing cannot be expected if the auditor and the audited are the same persons (Companies Act 335-(2)):

Roles and positions auditors cannot concurrently have

- Company director, employee
 - Subsidiary director, executive officer, employee
 - Company or subsidiary accounting advisor
-

d. Appointment and dismissal

Auditors are appointed through normal resolutions at shareholders' meetings. Although appointment proposals for auditors at shareholders' meetings are decided by directors or the Board of Directors, agreement by an auditor is needed for submission of the proposal to the shareholders' meeting (Companies Act 343-(1)). Additionally, auditors can suggest to directors discussions and proposals regarding the appointment of auditors (Companies Act 343-(2)).

Same as directors, auditors can be dismissed by a decision of the shareholders' meeting that appointed them, but auditors are different from directors in that their dismissal requires an extraordinary resolution by the shareholders' meeting (Companies Act 343-(4), 309-(2)-7, and other provisions).

e. Authority over duties

Auditors have two types of authority, (1) authority to audit operations and (2) authority to audit accounting²⁰.

Audit of operations is the auditing of the operational execution of directors outside the scope of accounting audits to see if there are any violations of laws, regulations, or the articles of incorporation.

Audit of accounting is an investigation into the accounting-related discussion proposals and documents submitted by directors to the shareholders' meeting, which is then reported at the shareholders' meeting.

Auditors are obligated to attend meetings of the Board of Directors (Companies Act 383-(1)) and to report audit results in an auditor's report at shareholders' and other meetings.

4. Financial auditor

a. Significance

Financial auditors audit finance-related documents (financial statements, accompanying annexed detailed statements, etc.) created by directors. Large companies, Companies With a Nominating Committee, Etc., and Companies With an Audit and Supervisory Committee are obligated to have financial auditors (Companies Act 328, 327-(5)). This document will omit details on financial auditors, as this corporate organ is rarely used by companies other than large companies or companies looking to list on a securities market.

b. Qualifications

Financial auditors must be Certified Public Accountants or audit firms (Companies Act 337-(1)).

c. Term of a financial auditor

A financial auditor's term ends on the day of the conclusion of the annual shareholders' meeting for the last business year which ends within one year from the time of their appointment (Companies Act 338-(1))

¹⁸ Certain conditions have to be fulfilled in order to become an outside company auditor, such as not having been a director, accounting advisor, executive, or employee of the company or its subsidiary within the last 10 years.

¹⁹ When there are two or more auditors, a majority agreement is required (Companies Act 343-(1)).

²⁰ Stock companies that are not public companies (except Companies With a Board of Company Auditors and Companies With Financial Auditors) can limit the authority of auditors to accounting audits through a provision in the articles of incorporation (Companies Act 389-(1)).

02. Hiring employees

This section will introduce the common hiring process, Japan's major labor-related laws and regulations, and the labor and social security systems.

1. The hiring process

Below is the normal process for hiring employees.



a. Identify hiring needs

- i. The general employment types in Japan include permanent employee, contracted employee, and part-time employee, etc. The basic classification is conducive to roughly describing the type of work, but the actual scope of work and job requirements are not clearly defined. The following matters need to be considered to describe recruitment conditions in more detail.
- ii. Job description: describe the general tasks, or other related duties, and responsibilities of a position
- iii. Experience and qualification: the required professional experience, licenses or certifications, such as Japanese language skills certification, driving licenses, bookkeeping and other professional qualifications.
- iv. Service period and working hours: starting hour and ending hour, presence of labor to be done exceeding prescribed working hours, rest period, days off, leave, and the change in shifts, flexible time options, etc.
- v. Salary: the calculation method and payment of wages, special wages, and bonus if any.
- vi. Insurance and welfare, the social insurance and welfare mechanism applicable to the employees, such as methods to determine retirement allowances, calculation, and payment of retirement allowances, etc.
- vii. Workplace: on-site or off-site.

b. Call for candidates and interview

Aside from publishing job postings on the internet, foreign companies collaborate with local recruiting agencies or apply to "Hello Work", a public employment security office, to obtain talent recommendations that meet the job requirements. Unlike some other countries, job adverts have exceptionally low response rates in Japan.

c. Join labor/social security systems

The content related to labor/social security system will be introduced in the section "(3) Labor/Social Security System

2. Employment conditions

Regardless of the employer or employee's nationality, the employment is subject to Japan's applicable laws and ordinances as long as the employee hired meets the definition of "worker" stipulated by Japanese labor-related laws and regulations.

The major labor-related laws regulating employment relationships include:

01. Labor Standards Act	Law stipulating the minimum standards for working conditions and providing the fundamental principles of individual labour relationships
02. Labor Contracts Act	Law stipulating the establishment and change of labor contracts
03. Industrial Safety and Health Act	Law stipulating the obligation to ensure safety and health of workers, in conjunction with the Labor Standards Act
04. Minimum Wage Act	Law stipulating the minimum wages

The highlights of the above-mentioned labor-related laws and regulations are as follows:

a. Fair treatment

The Labor Standards Act stipulates that "An employer shall not engage in discriminatory treatment with respect to wages, working hours or other working conditions by reason of the nationality, creed or social status of any worker." (Labor Standards Act Article 3).

b. Labor contract

In concluding a labor contract, the employer shall clearly indicate the wages, working hours and other working conditions to the worker. In this case, matters concerning wages and working hours and other matters stipulated by Ordinance of the Ministry of Health, Labour and Welfare shall be clearly indicated in the manner prescribed by Ordinance of the Ministry of Health, Labour and Welfare. (Labor Standards Act Article 15-(1), Ordinance for Enforcement of the Labor Standards Act Article 5). Additionally, a worker and an employer should confirm the contents of the labor contract whenever possible in writing (Labor Contracts Act Article 4-(2)).

The working conditions which the employer shall clearly indicate to the worker shall be as follows

(Ordinance for Enforcement of the Labor Standards Act Article 5-1 to 5-4)

- Matters concerning term of labor contract
- Matters concerning workplace and work engaged in
- Matters concerning starting hour and closing hour, presence of labor to be done exceeding prescribed working hours, rest period, days off, leave, and the change in shifts (in case workers work in two or more shifts)
- Matters concerning methods of determination, calculation, and payment of wages (except retirement allowances and those wages falling under item (v); hereinafter the same shall apply in this item), the dates for closing account for wages and for payment of wages, and increase in wages
- Matters concerning retirement (including grounds for dismissal)

c. General rules for the payment of wages

Wages shall be paid in currency and in full directly to the workers at least once a month at a definite date (Labor Standards Act Article 24).

d. Guaranteed payment and minimum wages

i. In the event of an absence from work for reasons attributable to the employer, the employer shall pay an allowance equal to at least 60 percent of the worker's average wage to each worker concerned during the period of absence from work. (Labor Standards Act Article 26).

ii. Guaranteed payment based on the hours worked

With respect to workers employed under payment in a piece work system or other subcontracting system, the employer shall guarantee a fixed amount of wage proportionate to working hours. (Labor Standards Act Article 27).

iii. Emergency payments for laborer illness, etc.

In the event that a worker requests the payment of wages to cover emergency expenses for childbirth, illness, disaster, or other emergency as set forth by Ordinance of the Ministry of Health, Labour and Welfare, the employer shall pay accrued wages prior to the normal date of payment. (Labor Standards Act Article 25).

iv. The minimum wages in Japan

The employers must pay a worker wages which are not less than the amount of minimum wages stated by the Minimum Wages Law. The amount of minimum wages is fixed according to regulations and industry. (Minimum Wage Act Article 4-(1)).

To guarantee the payment level of minimum wages for low-paid workers, regional minimum wages are set for every region of Japan. In addition to permanent employees, this minimum wage standard applies to all employees including contracted employees and part-time employees. (Minimum Wage Act Article 9-(1)).

Specified minimum wages are set for specific businesses and industries (Minimum Wage Act 15). If two or more different minimum wages are applicable to a worker, the provisions shall apply based on the highest minimum wages rate. (Minimum Wage Act Article 6).

e. Working hours, Rest Periods, and Days-off

i. Working hours

ii. The statutory working hours are 8 hours per day, or no more than 40 hours a week (for certain size and types of industry, 44 hours a week). (Labour Standard Law Articles 32, 40 and 131).

iii. Rest Periods

iv. An employer shall provide workers with at least 45 minutes of rest periods during working hours in the event that working hours exceed 6 hours, and at least one hour in the event that working hours exceed 8 hours (Labour Standard Law Articles 34-(1)).

v. Days-off

vi. An employer shall provide workers with at least one day off per week, or 4 days off or more during a four-week period. (Labor Standards Act Article 35). If an employee works over 40 hours a week, the company is expected to pay overtime to employees unless they work in a management position. The limits of overtime hours in Japan are 45 hours per month, or 360 hours per year.

f. Increased Wages for Overtime Work, Work on Days Off and Night Work)

In the event that an employer extends the working hours or has a worker work on a day off, the employer shall pay increased wages for work during such hours or on such days at a rate no less than the rate stipulated by a cabinet order within the range of no less than 25 percent and no more than 50 percent over the normal wage per working hour or working day. (Labor Standards Act Article 37, Premiums Ordinance)²¹.

g. Annual paid leave

An employer shall grant annual paid leave of 10 working days, either consecutive or divided, to workers who have been employed continuously for 6 months from the day of their being hired and who have reported for work on at least 80 percent of the total working days. (Labor Standards Act Article 39-(1)). With respect to workers who have been employed continuously for at least one year and a half, an employer shall grant more annual paid leave based on the continuous service years (Labor Standards Act Article 39-(2)).

h. Resignation at worker's initiative

Resignation is the voluntary termination of the labor contract at the worker's initiative. The efficacy of the laborer's statement for resignation is regulated by the Civil law, depending on if the labor contract has a set term. In the case of a labour contract which does not fix the term of employment, the contract terminates 2 weeks later following the request by employees for the cancellation of the contract.

²¹ When stating on the so-called "36 Agreement" that the laborer may work over 45 hours of off-hours work per month, it is provided that a premium percentage of over 25% should be aimed for time worked over 45 hours (Labor Standards Act 36-(2), Ministry of Health, Labour and Welfare Notice No.316 dated May 29, 2009).

i. Dismissal

Dismissal is when an employer wishes to arbitrarily cancel their labor contract with a laborer. If a dismissal lacks objectively reasonable grounds and is not considered to be appropriate in general societal terms, it is treated as an abuse of rights and is invalid (Labor Contracts Act Article 16) 22. As “lifetime employment” is widely adopted in Japan, it’s difficult to dismiss permanent employees in Japan. The effectiveness of a dismissal at the employer’s initiative is usually subject to severe scrutiny. When a company tries to dismiss employees due to company restructuring, the company must prove the following:

- i. Dismissal cannot be avoided under the current business and financial situations
- ii. Efforts have been made to avoid dismissal
- iii. The criteria for selecting layoffs are reasonable and fair
- iv. The decision has been fully negotiated with related workers and unions. And dismissal details, such as schedule, scale, and method were sufficiently explained to the employee

In the event that an employer wishes to dismiss an employee, the employer shall provide at least 30 days advance notice. Any employer who does not give 30 days advance notice shall pay the average wages for a period of not less than 30 days. However, that this shall not apply in the event that the continuance of the enterprise has been made impossible by a natural disaster or other unavoidable reason nor when the worker is dismissed for reasons attributable to the worker. (Labor Standards Act Article 20).

j. Rules of employment

Rules of employment are workplace regulations laborers should follow when working. Employers that continuously employ 10 or more laborers should ask for the opinion of the laborers’ representative when creating the rules of employment, attaching a document containing this opinion when submitting the rules of employment to the labor standards office. At the same time, the contents of these rules should be notified to the laborers (Labor Standards Act Article 89, 90, 106-(1)). Matters in opposition to laws and regulations such as the Labor Standards Act, or in opposition to labor agreements, cannot be contained in the rules of employment (Labor Standards Act 92). In addition, labor contracts that stipulate labor conditions that do not meet the standards established by the rules of employment are invalid with regard to such portions (Labor Contracts Act 12).

i. Matters to include in the rules of employment

Matters to include in the rules of employment are roughly divided into labor conditions and workplace regulations. The Labor Standards Act gives the following examples for matters that should be included:

- Mandatory matters to include (Labor Standards Act 89-i to -iii)

Matters that must be included in the rules of employment according to the Labor Standards Act

 - Matters particular to the times at which work begins and ends, break periods, days off, and leave
 - Matters particular to the means of determining, calculating, and paying wages, the timing of payments of wages, and increases in wages
 - Matters particular to resignation, dismissals, and other cancellations of the labor contract
- Relatively required matters to include (Labor Standards Act 89 -iii-2 to -10)
 - Matters that must be included when decided upon between the laborer and employer
 - Matters particular to retirement allowance or severance pay
 - Matters particular to special wages or minimum wages
 - Matters particular to costs for food or supplies for work
 - Matters particular to safety and health
 - Matters particular to vocational training
 - Matters particular to compensation for injury or illness, and support for non-work-related injury or illness
 - Matters particular to commendations or sanctions
 - Matters that apply to all laborers at the particular workplace in addition to the above

22 For contracts with a set term, laborers cannot be dismissed during the term of their contract as long as there is not an unavoidable reason to do so (Labor Contracts Act 17-(1)).

k. Medical checkups

Business owners are obliged to have laborers who are intended to be continuously employed undergo regular medical checkups once a year (Industrial Safety and Health Act 66-(1), Ordinance on Industrial Safety and Health 44). In addition, a medical checkup must be conducted when hiring laborers for continuous employment (Ordinance on Industrial Safety and Health 43). Other duties include provisions for laborers working with certain hazards to take a special medical checkup with a physician or a dentist according to the type of hazard, once every six months.

3. Labor and social insurance systems

Japan is a country with a public insurance system. Some public insurance generally must be participated in by those with an address in Japan (including foreign nationals), and some public insurance must be participated in if certain conditions are fulfilled.

When a business owner employs even a single laborer, the business owner is obliged to enter the laborer into a social insurance system and collect and pay insurance fees from all laborers. Japan's public insurance system is managed by the Ministry of Health, Labour and Welfare, and is composed of two types: labor insurance and social insurance.

a. Outline of public insurance systems

i. Labor insurance

- Industrial accident compensation insurance (industrial accident insurance)

This insurance grants the necessary benefits to laborers or their family when a work-related or commuting-related injury, disease, disability, or death, etc., befalls the laborer (Industrial Accident Compensation Insurance Act, article 1). The insurance fee is borne fully by the business owner (Industrial Accident Compensation Insurance Act, article 31).

- Employment insurance

Employment insurance provides the necessary benefits for workers who lost their job, who are having trouble continuing employment, as well as to those who are receiving job-related training in their industry (Employment Insurance Act, article 1).

ii. Social insurance

- Health insurance

Health insurance provides benefits for sickness, injury, death, or childbirth unrelated to industrial disasters (item?a) above) of the laborer or their dependents (Health Insurance Act, article 1). Offices running a business (with the exception of agriculture, forestry, fishery, and service industries) that employ five or more laborers are considered as places of business applicable for health insurance. The business owner is to establish a health insurance association and have its laborers be covered under health insurance (Health Insurance Act, article 3-3). The health insurance association established by the business owner collects insurance premiums from each laborer (Health Insurance Act, article 155-1), and insured persons and their employers each bear half of the amount of insurance premiums (Health Insurance Act, article 161-1).

- Long-term care insurance

Long-term care insurance provides the necessary insurance benefits for those certified to be in "Need of Long-Term Care" or in "Need of Support" (Long-Term Care Insurance Act, article 2-1). Laborers of age 40 and above but under 65 must pay long-term care insurance premiums. Long-term care insurance premiums are collected by the business owner together with insurance premiums for the health insurance described in a) above (Health Insurance Act, article 156-1-2, Long-Term Care Insurance Act, article 9-2).

- Employee's pension insurance

Employee's pension insurance provides insurance benefits for a laborer's old age (age 65 and above), disability, and death (Employees' Pension Insurance Act, articles 1 and 42). The pension is paid to surviving family members should the insured have passed away (Employees' Pension Insurance Act, article 58-1). Note that the scope of the applicable office is the same as that for health insurance, so offices that provide health insurance must also provide employee's pension insurance for its laborers (Employees' Pension Insurance Act, article 6-1).

b. Insurance scope and system details for labor and social insurance

The insurance scope for each system is as follows:

Insurance type	Labor insurance		Social insurance	
	Industrial accident insurance	Employment insurance	Health/Long-term care insurance	Employee's pension insurance
Sickness Injury	Covered		Covered	
Disability	Covered			Covered
Death	Covered		Covered	Covered
Old age				Covered
Childbirth			Covered	
Nursing Childcare		Covered	Covered	
Unemployment		Covered		

The details of each insurance system are as below. The insurance premium percentage and costs borne by the company and the insured are different depending on the insurance system. Caution is required as their application deadlines are also different.

	Industrial accident compensation insurance	Employment insurance	Health insurance/ Long-term care insurance	Employee's pension insurance
Purpose	Insurance that provides benefits for laborer injury, sickness, disability or death due to business reasons or when commuting	Insurance that provides benefits when the laborer loses their job or when something makes their continued employment difficult	Insurance that provides benefits for non-industrial accident sickness, injury, death, or childbirth Insurance that provides benefits for those certified as in "Need of Long-Term Care" or in "Need of Support"	Insurance that provides benefits to the elderly (65 and above), the disabled, or on death
Applicable office	All offices employing at least one laborer			
	Mandatory participation if even a single laborer is hired (Industrial Accident Compensation Insurance Act, article 3-1)	Mandatory participation. However, part-time laborers need to be potentially hired for 31 days or more with 20 hours of work or more per week (Employment Insurance Act, article 6)	Mandatory participation for offices with five or more people working in certain businesses (except agriculture, forestry, fisheries, service industries, etc.) (Health Insurance Act, article 3-1, Employees' Pension Insurance Act, article 6-1)	

		Industrial accident compensation insurance	Employment insurance	Health insurance/ Long-term care insurance	Employee's pension insurance
Insured		All laborers (However, part-time laborers need to be potentially hired for 31 days or more with 20 hours of work or more per week)		Company directors, employees, termed laborers (Excludes non-executive directors as well as temporary laborers with contract terms of 2 months or less)	
Insurance premium (Insurance premium compared to the laborer's wage)		0.25% to 8.8% ²³ Percentage varies depending on the business type	0.90% ²⁴ (For normal businesses)	9.90% (Tokyo) ²⁵ Long-term care insurance is for those of age 40 and above but below 65 ²⁶ . The premium rate is 1.73%, totaling 11.63%. (From March 2019)	18.300% ²⁷ (From September 2017 onward)
Ratio of insurance premium borne	Borne by business owner	All	0.60% (Same as above)	4.95% (6.25% including long-term care insurance)	9.150%
	Borne by laborer	None	0.30% (Same as above)	4.95% (6.25% including long-term care insurance)	9.150%
Documentation to submit ²⁸		a. Industrial insurance relationship establishment notice b. Approximate industrial insurance premiums declaration (Within 50 days from the day after the business is covered by industrial accident compensation insurance)	a. Notice for place of business covered under employment insurance b. Qualification acquisition notice for person covered under employment insurance c. Industrial insurance relationship establishment form (one with an acceptance stamp by the Labor Standards Inspection Office)	a. Notice for new application of health and pension insurance b. Status acquisition notice for the insured	

23 Ministry of Health, Labour and Welfare website (<https://www.mhlw.go.jp/file/04-Houdouhappyou-11401000-Roudoukijunkyokuroudouhoshoubu-Rousaikanrika/0000188912.pdf>)

24 Employment insurance premium rate as of the FY 2019 rate on the MHLW website.

25 Rate as of the FY 2019 rate on the Japan Health Insurance Association website.

26 Only stated for a secondary insured person on the Long-term Care Insurance Act, article 9-2.

27 Rate as of the FY 2019 rate on the Japan Pension Service website.

28 Supplementary documents may need to be attached for each notice.

	Industrial accident compensation insurance	Employment insurance	Health insurance/ Long-term care insurance	Employee's pension insurance
Notice ²⁹	Within 10 days from the day after the business is covered by industrial accident compensation insurance	Within 10 days from the day after the creation of the new office for the business covered by employment insurance	Within 5 days from the day after the office is newly applicable for health and pension insurance	
Notice to	Relevant Labor Standards Inspection Office	Public Employment Security Office relevant to the location of the office	Pension Office relevant to the office	

(Note) The table above is an outline; relevant authorities should be confirmed with and details investigated when actually carrying out these procedures.

b. Scope of public insurance for foreign nationals

The aforementioned public insurance systems generally apply to foreign nationals in the same way as Japanese nationals employed in Japan, given that the foreign national is employed at an office in Japan. In other words, as long as the foreign national is employed in Japan, it is legally required for them to participate in the public insurance systems.

However, caution is required as treatment of foreign nationals, as explained below, may differ depending on the person's resident status and their prospective period of stay.

²⁹ Applies only to the first notice. A notice needs to be issued every time a matter that requires notification occurs.

Industrial Accident Compensation Insurance Act	The same insurance applies for both foreign nationals and Japanese nationals. There are no differences in the scope of coverage.																						
Employment Insurance Act	The same insurance applies for both foreign nationals and Japanese nationals.																						
Health Insurance Act	The same insurance applies for both foreign nationals and Japanese nationals.																						
Long-Term Care Insurance Act	However, foreign nationals with a residence status or prospective period of stay of 3 months or less are not applicable for long-term care insurance even if they have health insurance.																						
Employees' Pension Insurance Act	The same insurance applies for both foreign nationals and Japanese nationals. When a foreign national residing in Japan for a short term with an employee's pension insurance coverage period of 6 months or more exits the country, the foreign national can receive a lump-sum withdrawal payment depending on how long they were covered and if the person fulfills certain conditions. The lump-sum withdrawal payment amount is calculated based on the following formula. If the final month (see note) of the length of coverage falls in or after April 2021: A total amount 1.3 times the monthly standard remuneration for every month until March 2005, added to the total of the monthly standard remuneration and standard bonus for every month from April 2005 onward. This sum is then divided by the sum of all periods in which one was insured, and multiplied by the rate below.																						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Participation period</th> <th style="text-align: left;">Payment rate</th> </tr> </thead> <tbody> <tr> <td>6 or more months, less than 12 months</td> <td>Insurance premium rate \times 1/2 \times 6</td> </tr> <tr> <td>12 or more months, less than 18 months</td> <td>Insurance premium rate \times 1/2 \times 12</td> </tr> <tr> <td>18 or more months, less than 24 months</td> <td>Insurance premium rate \times 1/2 \times 18</td> </tr> <tr> <td>24 or more months, less than 30 months</td> <td>Insurance premium rate \times 1/2 \times 24</td> </tr> <tr> <td>30 or more months, less than 36 months</td> <td>Insurance premium rate \times 1/2 \times 30</td> </tr> <tr> <td>36 or more months, less than 42 months</td> <td>Insurance premium rate \times 1/2 \times 36</td> </tr> <tr> <td>42 or more months, less than 48 months</td> <td>Insurance premium rate \times 1/2 \times 42</td> </tr> <tr> <td>48 or more months, less than 54 months</td> <td>Insurance premium rate \times 1/2 \times 48</td> </tr> <tr> <td>54 or more months, less than 60 months</td> <td>Insurance premium rate \times 1/2 \times 54</td> </tr> <tr> <td>60 months or more</td> <td>Insurance premium rate \times 1/2 \times 60</td> </tr> </tbody> </table>	Participation period	Payment rate	6 or more months, less than 12 months	Insurance premium rate \times 1/2 \times 6	12 or more months, less than 18 months	Insurance premium rate \times 1/2 \times 12	18 or more months, less than 24 months	Insurance premium rate \times 1/2 \times 18	24 or more months, less than 30 months	Insurance premium rate \times 1/2 \times 24	30 or more months, less than 36 months	Insurance premium rate \times 1/2 \times 30	36 or more months, less than 42 months	Insurance premium rate \times 1/2 \times 36	42 or more months, less than 48 months	Insurance premium rate \times 1/2 \times 42	48 or more months, less than 54 months	Insurance premium rate \times 1/2 \times 48	54 or more months, less than 60 months	Insurance premium rate \times 1/2 \times 54	60 months or more	Insurance premium rate \times 1/2 \times 60
	Participation period	Payment rate																					
	6 or more months, less than 12 months	Insurance premium rate \times 1/2 \times 6																					
	12 or more months, less than 18 months	Insurance premium rate \times 1/2 \times 12																					
	18 or more months, less than 24 months	Insurance premium rate \times 1/2 \times 18																					
	24 or more months, less than 30 months	Insurance premium rate \times 1/2 \times 24																					
	30 or more months, less than 36 months	Insurance premium rate \times 1/2 \times 30																					
	36 or more months, less than 42 months	Insurance premium rate \times 1/2 \times 36																					
	42 or more months, less than 48 months	Insurance premium rate \times 1/2 \times 42																					
	48 or more months, less than 54 months	Insurance premium rate \times 1/2 \times 48																					
54 or more months, less than 60 months	Insurance premium rate \times 1/2 \times 54																						
60 months or more	Insurance premium rate \times 1/2 \times 60																						
(Note) The final month is one month prior to the month of the date where the insured loses their status as an insured.																							

(Note) The table above is an outline; relevant authorities should be confirmed with and details investigated when actually carrying out these procedures.

[Reference] Japanese Pension Service website (<https://www.nenkin.go.jp/service/jukyu/sonota-kyufu/dattai-ichiji/20150406.html>)

Taxation

I. Outline of tax policies

Who collects taxes and who is subject to taxation

An overview of Japan's tax system is presented in Section "1. Types of taxes".

National and local governments (prefectural and municipal) are the two sovereign entities which have the right to levy and collect taxes.

How taxes are paid

Taxes are paid using the following methods:

- Self-declaration method (taxpayers calculate and pay their own taxes and submit tax returns to report the same)
- Official assessment method (sovereign entities determine tax amount and notify the taxpayer of this amount)
- Pay-as-you-go method (withholding agents collect income tax at the time of payment of certain income)
- Including tax in sales prices of certain products and services
- Others

The following table shows taxes classified by payment method:

(1) Self-declaration method

- Income tax (declared income tax)
- Corporate tax and local corporate tax
- Consumption tax for business operators
- Corporate prefectural inhabitants tax, municipal inhabitants tax
- Corporate enterprise tax (including special local corporate tax)
- Personal enterprise tax
- Inheritance tax
- Gift tax
- Business office tax

(2) Official assessment method

- Personal prefectural inhabitants tax, municipal inhabitants tax
- Fixed asset tax
- Real estate acquisition tax
- Automobile tax

(3) Pay-as-you-go method

- Withholding income tax on remuneration, retirement allowance, dividends, and interest
- Withholding income tax on compensation, fees, etc.
- Withholding income tax on the income of domestic corporations
- Withholding income tax on the income of non-residents and foreign corporations

(4) Taxes that business operators must pay and thus are either included in sales prices of certain products and services

- Consumption tax for consumers
- Liquor tax
- Tobacco tax
- Petroleum tax
- Golf course utilization tax

(5) Others

- Stamp tax: A stamp of the prescribed amount is affixed to the taxable document
- Registration and license tax: E.g., attached to application forms such as for registration
- Automobile acquisition tax: Declared at time of vehicle registration
- Motor vehicle tonnage tax: Paid during vehicle registration and inspections

<Notes>

- Certain incidental taxes falling under the self-declaration method, may also be collected under the official assessment method.
- The official assessment method may require certain pre-declarations by taxpayers, in order for the authorities to determine tax amount.

Tax filing procedures are complex and require in-depth knowledge of tax laws and administrative procedures. All tax laws are written in the Japanese language. In general, Japanese corporations conclude an advisory contract with a tax accountant corporation or a certified tax accountant who in turn carries out tax filing and other related work on their behalf.

01. Types of taxes

		Taxes on income	Taxes on ownership and transfer of assets	Taxes on consumption	Taxes on transactions (circulation)
National tax		<ul style="list-style-type: none"> • Personal income tax • Corporate tax and local corporate tax 	<ul style="list-style-type: none"> • Inheritance tax • Gift tax • Motor vehicle tonnage tax • Land value tax • (This tax has currently been suspended) 	<ul style="list-style-type: none"> • Consumption tax • Liquor tax • Tobacco tax • Petroleum tax 	<ul style="list-style-type: none"> • Registration and license tax • Stamp tax
Local tax	Prefectural tax	<ul style="list-style-type: none"> • Metropolitan and prefectural inhabitants tax • Enterprise tax • (including special enterprise tax) 	<ul style="list-style-type: none"> • Fixed asset tax (special) • Automobile tax • Enterprise tax (size-based enterprise tax) 	<ul style="list-style-type: none"> • Local consumption tax • Prefectural tobacco tax • Golf course utilization tax 	<ul style="list-style-type: none"> • Real estate acquisition tax • Automobile acquisition tax
Local tax	Municipal tax	<ul style="list-style-type: none"> • Municipal inhabitants tax 	<ul style="list-style-type: none"> • Fixed asset tax • Business office tax • Light vehicle tax • Special landholding tax (This tax has currently been suspended) 	<ul style="list-style-type: none"> • Municipal tobacco tax 	

1. Corporate tax

a. Effective tax rates

Japanese corporations are subject to a national tax of 23.2% on their taxable income, apart from other local taxes. Local taxes include municipal taxes and per-capita taxes which are levied based on the size of the corporation regardless of whether they have taxable income.

The effective corporate tax rate, including local taxes, is approximately 30%-34%. Retained income of family companies is subject to additional taxes rules. If these rules are applicable, the effective tax rate may be higher than the above.

Japan has strict rules for determination of tax-deductible entertainment and social expenses, donations, remuneration for officers, and other similar expenses. These adjustments often lead to a larger taxable income, as compared to the net income before taxes for accounting purposes.

b. Per capita amount

As local tax, all corporations are required to pay the per-capita portion of corporate inhabitants tax, even if they have no taxable income. In other words, even if a corporation has accounting losses during the taxable period, it will still be obligated to pay this tax. The rationale behind this levying tax is that as a corporate resident of that area, the corporation benefiting from public services provided by the local government.

c. Size-based enterprise tax

As local tax, all corporations with stated capital exceeding 100 million JPY are required to pay size-based enterprise tax, which is imposed according to the size of the corporation. This tax is levied in addition to the per-capita tax and is required to be paid even if a corporation has accounting losses during the taxable period.

d. Declarations/ tax filings

Declarations concerning national tax are to be reported to the jurisdictional tax office, whereas declarations concerning local tax are to be reported to the prefecture or the mayor of the municipality. If a corporation has multiple branches or offices in municipalities different from the head office, then separate local tax filings are required before each municipality. For 100% parent-subsidiary groups, taxpayers may choose to apply the Consolidated Tax Return Filing System with respect to National tax.

In principle, the deadline for filing one's tax returns is within 2 months (or 3 months if extension is sought) from the financial year-end. Notwithstanding the timing for filing the tax return, certain Corporations are required to prepay/ remit their taxes (on estimated basis) at periodic intervals.

2. Personal income tax

a. Effective tax rates

Individuals are subject to progressive national taxes, at the rate of 5%, 10%, 20%, 23%, 33%, 40%, or 45% depending on their taxable income. Additionally, inhabitants taxes are also imposed upon them.

b. Declarations/ tax filings

For certain individuals, all taxes are collected by way of withholding taxes. This regime applies to only employment income, but covers almost all salaried workers. The corporations paying remuneration are considered as withholding agents for the remuneration paid.

Other individuals, including those who have income apart from employment income (for example, real estate income or income from asset transfers) are required to declare their income by way of a tax return. Moreover, if the personal employment income of an individual exceeds 20 million JPY, then he/ she must file a tax return even if there is no income other than employment income.

02. Corporate tax costs

Taxes, tax rates and an overview of taxation requirements for a typical Japanese corporation are as follows:

Taxes imposed on corporations	Tax rates, tax requirements
Corporate tax, local corporate tax	23.2% on corporate income (local corporate tax is 10.3% on corporate tax)
Corporate inhabitants tax	7.0% on corporate tax (standard tax rate)
Corporate enterprise tax	3.5%-7.0% on corporate income (standard tax rate) (For corporations with more than 100 million JPY in stated capital, a size-based enterprise tax is also imposed)
Income tax	When receiving interest, dividend income, or other payments – e.g., interest on bank deposits made in Japan—a 15% national tax is withheld at source (Normally treated as advance payments on corporate tax)
Consumption tax	Corporations that fall under the category of business operators are obliged to pay and collect consumption tax.
Business office tax	This tax is levied upon corporations that are (1) located in a special-use district within Tokyo, a city designated by government ordinance, or other specific cities; and (2) have employee headcount or floor space that exceeds certain threshold
Fixed asset tax	This tax is levied upon corporations that own land, buildings, or other fixed assets
Automobile tax	This tax is levied upon corporations that own vehicles
Stamp tax	This tax is levied when creating or issuing taxable documents or when preparing certain contracts or issuing certain receipts
Real estate acquisition tax	This tax is levied when acquiring land or buildings
Others	

03. Personal and other tax costs

Taxes, tax rates and an overview of taxation requirements of a typical individual living in Japan are as follow:

Personal taxes	Tax rate, tax requirements
Income tax	5%-45% on the individual income
Personal inhabitants tax	10% on individual income
Personal enterprise tax	This tax is levied on individuals who conduct business; tax rate is 3%-5%
Inheritance tax	This tax is levied when an individual acquires an asset by way of inheritance or bequeathment
Gift tax	This tax is levied when an individual acquires an asset as a gift
Consumption tax	Individuals conducting business and who fall under the category of business operators, are obliged to pay and collect consumption tax.
Business office tax	This tax is levied upon individuals who conduct business (1) in a special-use district within Tokyo, a city designated by government ordinance, or other specific cities; and (2) with an employee headcount or floor space that exceeds a certain threshold
Fixed asset tax	For individuals who own land, buildings, or other fixed assets
Automobile tax	This tax is levied upon individuals who own vehicles
Stamp tax	This tax is levied when creating or issuing taxable documents
Real estate acquisition tax	This tax is levied, when acquiring land or buildings
Others	

II. Taxes levied on corporate income

01. Corporate tax

1. Scope

Upon establishing a corporation (stock company), the established corporation is classified as an “ordinary corporation” under “domestic corporations”. On the other hand, Japanese branches of foreign corporations, are classified as “ordinary corporation” under “Foreign corporations”. These corporate categories are described in more detail in the table below

Corporate category		Income for each business year	Income during liquidation	Liquidation income
Domestic corporations	Ordinary corporation	All income is taxed at the ordinary tax rate	Same as left	Abolished
	Cooperative, etc.	All income taxed at a low tax rate	Same as left	Abolished
	Corporation in the public interest, etc.	Income from profit-making business taxed at a low tax rate	Same as left	Abolished
	Association or foundation without juridical personality	Income from profit-making business taxed at the ordinary tax rate	Same as left	Abolished
	Public service corporation	No tax obligation		
Foreign corporations	Ordinary corporation	Only Japan sourced income is taxed at the ordinary tax rate	Same as left	
	Association or foundation without juridical personality	Japan sourced income from profit-making business taxed at the ordinary tax rate	Same as left	

Note: In addition to the above, there is a special tax rate for the taxable retained income of family companies.

2. Business year

“Business year” in the Corporation Tax Act refers to the financial year or any other comparable period as defined by law or the corporation’s articles of incorporation.

Almost all corporations set their business years at one year, and listed corporations tend to set their financial closing at the end of December or March. If a corporation sets its financial year as longer than one year or if the financial year is not specified, then certain special rules apply. These rules are described in the table below.

Mode	Fiscal year	Business year	
If a fiscal year is specified	If it does not exceed one year	That period	
	If it exceeds one year	The fiscal year is divided into one-year periods starting from the date of commencement of that fiscal year (should the final period be less than one year, the duration of that period)	
If a fiscal year is not specified	If the fiscal year is set and reported to the competent district director with jurisdiction over the place for tax payment within 2 months following the date of the corporation's establishment/ the foreign corporation has a permanent establishment in Japan	If the period does not exceed one year	That period
		If the period exceeds one year	The fiscal year is divided into one-year periods starting from the date of commencement of that fiscal year (should the final period be less than one year, the duration of that period)
	If a report is not sent regarding the fiscal year within 2 months following the date of the corporation's establishment/the foreign corporation has a permanent establishment in Japan	The period designated as the fiscal year by the competent district director with jurisdiction over the place for tax payment For associations or foundations without juridical personality, the period from January 1 to December 31.	

3. The place for tax payment

The place for tax payment, for a domestic or foreign corporation is as follows:

Category	The place for tax payment	
Domestic corporation	Location of head or main office	
Foreign corporation	Foreign corporations that have permanent establishments in Japan	Location of the establishment engaged in business in Japan (If two or more locations exist, the main location)
	Foreign corporations other than (1) that receive consideration from leases of real estate located in Japan or the like	Location of such assets (If two or more assets exist, the location of the main asset)
	Foreign corporations other than (1) or (2)	For corporations that previously fell under (1) or (2) above, the jurisdiction over the place for tax payment used then The location selected by the foreign corporation for filing tax returns and the like. For corporations other than a) or b) above—Kojimachi tax office

In principle, corporations are required to file tax returns, applications, requests, notifications, payments, and other various documents with the competent district director having jurisdiction over the place for tax payment.

Category	Where to submit		
Corporate tax/ consumption tax	In principle	The competent director with jurisdiction over the place for tax payment at the time of submission	
	When caution is required	The head office will move after the end of the business year	The tax office with jurisdiction over the place for tax payment after the head office has moved
		The place for tax payment has been designated for the corporation	The designated tax office with jurisdiction over the place for tax payment
		Corporations under the jurisdiction of a regional taxation bureau (corporations with stated capital of more than/equal to 100 million JPY)	The tax office with jurisdiction over the place for tax payment
	Tax returns of acquired corporations	The tax office with jurisdiction over the place for tax payment for the acquired corporation	
Local tax	Enterprise tax	Required to submit documents to all metropolitan tax (prefectural tax) offices of the regions where the business is located	
	Prefectural inhabitants tax		
	Municipal inhabitants tax	Required to submit documents to all city halls, ward offices, or town halls of the regions where the business is located	

4. Blue returns

a. Outline

Corporations that meet certain requirements (as outlined below) and have received a specific approval may submit a blue returns form. Corporations that file blue returns are entitled to various tax benefits.

b. Requirements for filing blue returns

Maintain statutory books and records to record transactions and preserve those records (for 7 years in principle, or 10 years for a year in which a net operating loss was recorded).

Submit an application seeking approval before the competent district director with jurisdiction over the place for tax payment and receive approval in advance.

Deadline for application for approval (For newly established corporations)

The date from which 3 months have elapsed since the date of establishment	} Whichever comes first
The end date of the first business year after establishment	

c. Revoking approval for filing blue returns

In the event of non-compliance with any of the following conditions, the corporation's approval for filing blue returns may be revoked. Such revocation shall be retroactively effective from the start of the business year in which this the non-compliance was observed, and the corresponding tax benefits will not apply.

- i. When books and records are not being kept, recorded, or preserved as stipulated by law
- ii. When necessary instructions given by the competent district director regarding books and records have not been followed
- iii. When there are sufficient grounds to doubt the truthfulness of all entries in the corporation's books and records, such as when all or part of transactions are described in a manner so as to conceal or disguise the truth
- iv. When an income tax return is not filed before the submission deadline
- v. When approval of consolidated tax payment is revoked due to the same facts as a) to d)

d. Benefits of blue returns

- i. Net operating loss recorded for a business year in which the blue return was filed may be carried forward, subject to some conditions
- ii. Net operating loss recorded in a business year beginning on or after April 1, 2018 may be carried forward for 10 years from the following business year
- iii. The corporation will be eligible to receive corporate tax refunds by carrying back net operating losses
- iv. (Limited to certain business years for certain small and medium-sized enterprises*)
- v. *This does not apply to small and medium-sized enterprises, for which 100% of their shares are held by corporations with stated capital of 500 million JPY or more.
- vi. ("Small and medium-sized enterprises" refer to corporations with stated capital of 100 million JPY or less at the end of the business year)
- vii. Making reassessments based on examinations of books and records
- viii. Appending reasons for the correction to the notice of correction
- ix. Prohibiting reassessments or determinations by estimate
- x. Carrying out special depreciation or extra depreciation when certain requirements are met
- xi. Applying special deduction of corporate tax when certain requirements are met
- xii. Carrying out advance depreciation when certain requirements are met
- xiii. Applying the special tax treatment for small and medium-sized enterprises to include the acquisition cost of petty sum depreciable assets in deductible expenses for small and medium-sized enterprises, etc.

5. Taxes for expenses

Special attention must be given to the following expenses, as they are subject to special treatment under the Corporation Tax Act:

- Remuneration for officers
- Donations
- Entertainment, social and similar expenses
- Taxes and dues
- Thin capitalization rules

1. Remuneration for officers

- i. Excluding retirement allowances and share options, remuneration of officers is excluded from deductible expenses except for the following:

a. Regular fixed remuneration

Remuneration that is paid at regular intervals of 1 month or less for which the same amount is paid for each payment period during that business year

(Revisions are permitted up to a certain amount, such as ordinary revisions which were resolved at regular shareholders meetings)

Note: Regarding temporarily increased compensation to officers

For accounting purposes, a corporation is permitted to increase remuneration for its officers to manipulate profits in the middle of a business year if it expects to record higher-than-expected profits. However, for tax purposes, such remuneration may not be included in deductible expenses, as it will no longer qualify as regular fixed remuneration

b. Defined compensation notified in advance

Remuneration that is paid based on a rule to pay a defined amount at predetermined times, and for which notification has been submitted to the competent tax office within a certain period of time

*No notification is required for remuneration paid via stocks with certain restrictions on transfer, which are issued in exchange for future service by officers

c. Profit-related remuneration

Remuneration calculated on the basis of profit indicators paid to executive officers by a corporation that is not a family company

Note: If the corporation bears expenses that should be personally borne by officers, these expenses are treated as remuneration for officers. For example, corporations may pay the entire rent for company housing where officers live, pay for certain insurance premiums, pay for hotels and gasoline for personal use, lend money without interest, and so on.

In such cases, if this is paid as a fixed monthly amount, it is included in deductible expenses as regular fixed remuneration described in item a) above. However, it is important to note that if the payment is made irregularly, it does not fall under any of the items a), b), or c) described above and is excluded from deductible expenses.

ii. Unreasonably high portions of remuneration for officers are excluded from deductible expenses

(Excludes remuneration that are not included in deductible expenses as per item 1), including retirement allowances)

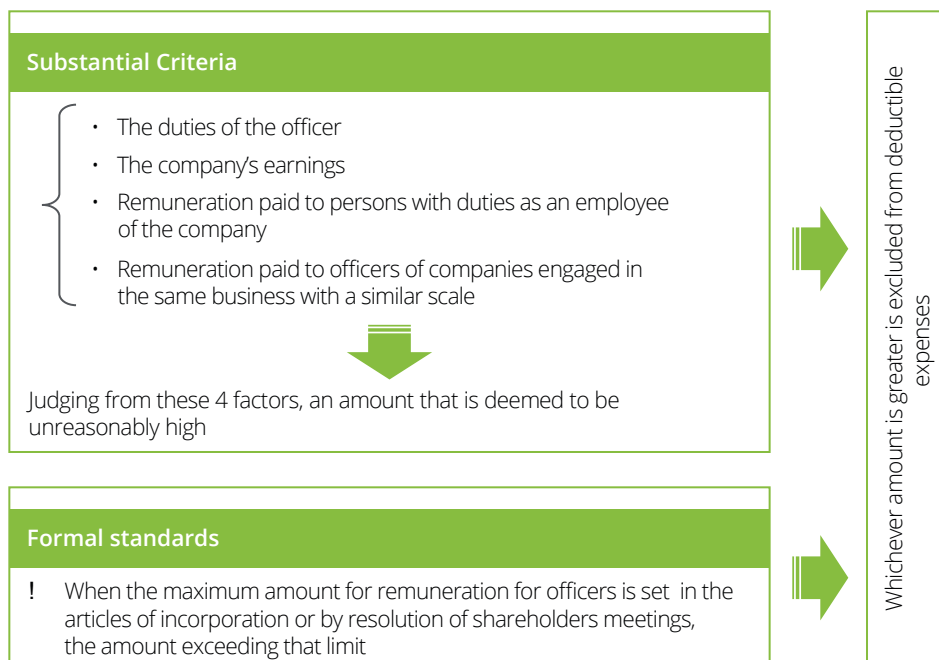
*As with highly unreasonable portions of remuneration for officers, highly unreasonable portions of remuneration paid to a person with duties as an employee who has a special relationship with an officer (e.g., marriage, receiving livelihood support) are excluded from deductible expenses.

a. Scope of officers under tax law

The scope of officers for tax purposes is as follows:

Officers under tax law	Officers under the Civil Code and the Companies Act	Executive officers, operating officers, accounting advisors, auditors, directors, auditor-secretaries, or liquidator of a corporation
	Deemed officers	Persons who are neither registered officers nor persons with duties as an employee, but substantially engage in the management of the corporation
		E.g., chairperson, consultant, advisor
		Specific shareholders and other persons with duties as an employee of a family company and are engaged in the management of the company

b. Criteria for determining whether an amount is unreasonably high as remuneration for officers



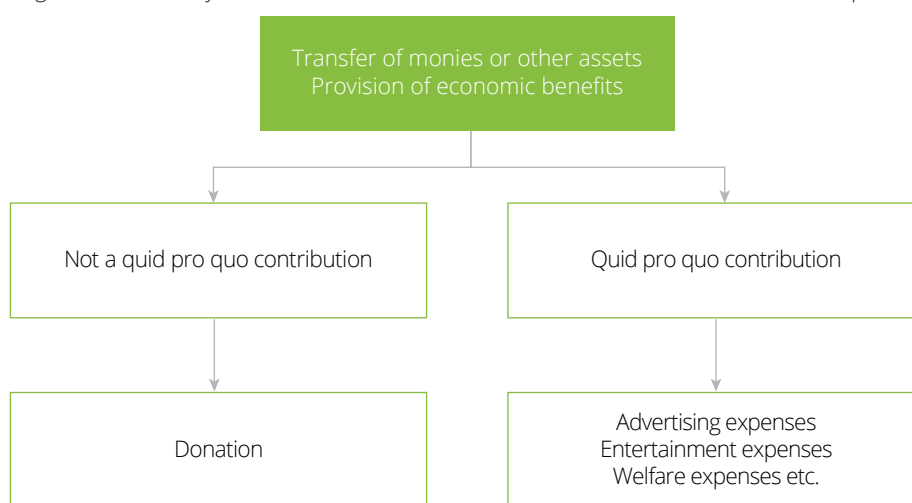
2. Donations

With the exception of specific donations under the Corporation Tax Act, donations exceeding a certain limit are not included in deductible expenses.

i. Definition of a donation

The amount of a donation, regardless of whether the donation was made as a donation, contribution, gift, or under any other name, is to be: (1) the amount of monies, in the case where a domestic corporation has made a gift or the gratuitous conveyance of monies or other assets/economic benefits, (2) the value of the assets other than monies at the time of the gift, or (3) the value of the economic benefits at the time of the conveyance.

In the case where a domestic corporation has transferred assets or conveyed economic benefits when the price for the transfer/conveyance is low compared to the value of the assets as of the transfer (or the value of the economic benefits at the time of conveyance), the difference between the price and the value that is deemed to have been, in effect, given as a gift or gratuitous conveyance is included in the amount of the donation set forth in the preceding paragraph.



ii. Limit on the amount of donations included in deductible expenses

Under the Corporation Tax Act, the treatment of donations depends on their classification. Donations are generally categorized into the following 5 types:

Donation type	Treatment
Specified donations and donations to national or local governments	Full amount included in deductible expenses
Donations to specified public interest promotion corporations, authorized specified charitable trusts, and certified NPO corporations (donations which will be used for financial contribution are excluded)	Upper limit exists for including in deductible expenses
General donations	Upper limit exists for including in deductible expenses
Donations to foreign-affiliated parties	Full amount not included in deductible expenses
Donations between group companies where one of the parties has a full controlling interest in the other party	Full amount not included in deductible expenses

Formula

The maximum amount of general donations included in deductible expenses:

$$\text{Max amount of Deductible} = \left(\text{Amount of capital} \times \frac{\text{\# of months in the period}}{12} \times \frac{2.5}{1,000} + \text{Amount of Income} \times \frac{2.5}{100} \right) \times \frac{1}{4}$$

The maximum amount of donations given to entities, such as specified public interest promotion corporations, that are included in deductible expenses:

$$\text{Max amount of Deductible} = \left(\text{Amount of capital} \times \frac{\text{\# of months in the period}}{12} \times \frac{3.75}{1,000} + \text{Amount of Income} \times \frac{6.25}{100} \right) \times \frac{1}{2}$$

The portion of a donation to an entity, such as a specified public interest promotion corporation, that was not included in deductible expenses is included in the amount for general donations.

Difference between donations and entertainment or social expenses

Entertainment and social expenses are for providing a corporation's customers, suppliers, and other parties related to the business with entertainment, amusement, recreation, gifts, and other similar acts, while donations are defined as gifts of money, goods, or the like to parties not directly related to the business. In practice, one judges whether an expense is an entertainment or social expense or a donation depending on the actual situation for each expenditure.

Examples of transfers of money recognized as donations

- When a parent company bears expenses that should be borne by a subsidiary without reasonable grounds for doing so
- Conveying certain benefits to employees of a subsidiary
- Waiving subsidiary debt (excluding waivers for the purpose of restructuring the subsidiary)
- Acquiring assets at a price higher than their market value
- Transferring assets at a price lower than their market value, etc.

Donations to foreign-affiliated party

No provisions exist regarding the maximum amount of donations to foreign-affiliated parties that can be included in deductible expenses, and the entire amount is excluded from deductible expenses.

A foreign-affiliated party is a foreign corporation that has a special relationship with the corporation. More specifically, "special relationship" includes the following:

- One of the two parties, directly or indirectly, owns 50% or more of the issued shares, etc., of the other corporation
- The same person, directly or indirectly, owns 50% or more of the issued shares, etc., of the 2 parties
- One of the two parties is able to substantially determine all or part of the business policies of the other party

3. Entertainment and social expenses

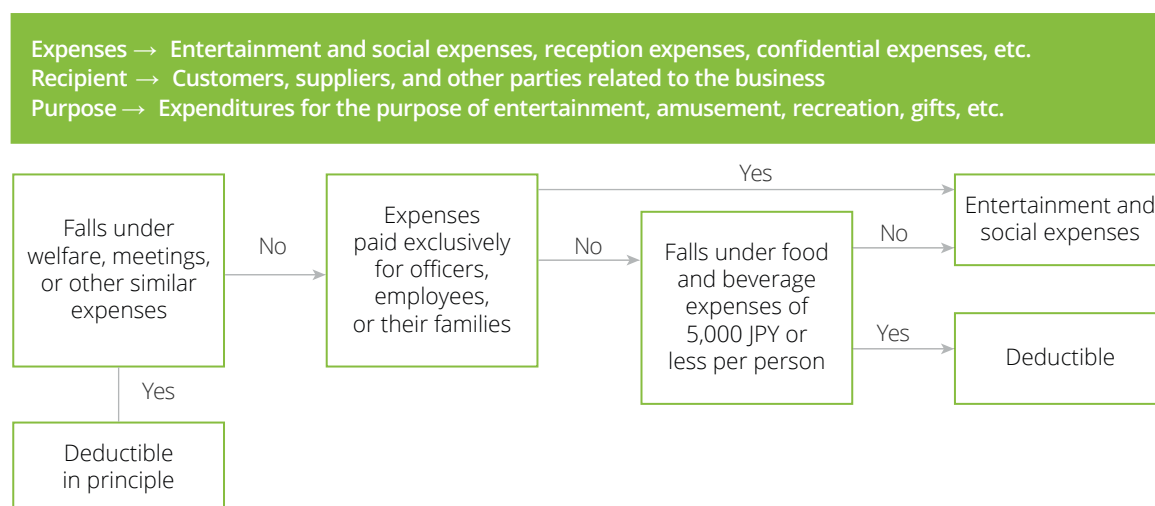
i. Definition of entertainment expenses

“Entertainment and social expenses” is a generic term including entertainment and social expenses, reception expenses, confidential expenses, and other expenses that are paid by a corporation to provide its customers, suppliers, and other parties related to the business with entertainment, amusement, recreation, gifts, and other similar acts. Note this excludes expenses normally required for athletic competitions, performances, trips, and other activities held exclusively for employee recreation, as well as certain other expenses.*

*Food and beverage expenses of 5,000 JPY or less per person (excluding internal food and beverage expenses), for which the following documents have been preserved:

- The date of the meal or drink
- Name or title of the customer, supplier, or other person related to the business who participated in the meal or drink
- The number of people who participated in the meal or drink
- The name of the restaurant or eatery

ii. Differentiating entertainment or social expenses from other related expenses



a. How welfare expenses differ from entertainment or social expenses?

In addition to expenses normally required for athletic competitions, performances, trips, and other activities for the purpose of employee recreation, expenses similar to the following may be treated as welfare expenses:

- Expenses required to provide employees with normal food and/or beverages on occasions such as company anniversaries, national holidays, and inauguration ceremonies for a new company building, given that the event is internal and all employees are mostly treated in the same way.
- Expenses required to provide employees or their families with money and/or goods for the purpose of congratulation, condolence, or good fortune in accordance with certain standards.

b. How remuneration differs from entertainment or social expenses

- The following money and/or goods provided to employees are considered to be part of remuneration, by their nature, and are not included in entertainment or social expenses:
- Expenses for lunches and other offerings which are normally provided
- Expenses incurred up to the cost of selling the company's products and/or goods to employees at less than cost
- Amounts paid under the name of confidential expenses, reception expenses, entertainment and social expenses, travel expenses, and the like, for which the use of the expense is either unknown or deemed to be unrelated to the business of the corporation

c. How advertising expenses differ from entertainment or social expenses

Advertising expenses refer to the cost of advertising to an unspecified number of people. While the cost of inviting the general public to attend theater plays by lottery can be included in advertising expenses, the cost of activities targeted at specified individuals is considered to be an entertainment expense.

How sales rebates differ from entertainment or social expenses

Expenses paid in proportion to the amount of sales or accounts receivables collected	⇒ Sales rebates
Rebates offered voluntarily with no calculation basis	⇒ Entertainment and social expenses
Goods or travel invitations paid in lieu of money	⇒ Entertainment and social expenses
Goods transferred according to a calculation basis	
Business assets: assets that are clearly intended to be sold to or used by customers as inventory or fixed assets	Sales rebates
Small-value goods: items with a unit purchase price of 3,000 JPY or less	

d. How meeting expenses differ from entertainment or social expenses

Meeting expenses refer to the cost of serving refreshments and meal boxes at meetings (including business negotiations and meetings with visitors). However, social gatherings or hospitality events carried out in the name of a “meeting” in which food and beverages are served beyond what is normal for a meeting are considered entertainment or social expenses.

e. How donations differ from entertainment or social expenses

Donations refer to a gift or the gratuitous conveyance of monies or other assets or economic benefits given to things that are not directly related to the corporation’s business for which counter benefits are not received. An expense is determined to be a donation or an entertainment or social expense depending on the actual situation. In principle, gifts in the form of money will be considered donations, and the following will not be included in entertainment or social expenses:

- (1) Contributions to social service or political organizations
 - (2) Donations for shrine festivals, etc.
- } Donations

iii. Calculation of amount excluded from deductible expenses

Applicable corporation	Amount excluded from deductible expenses
Corporations with stated capital (capital contribution) of 100 million JPY or less ¹	Amount of entertainment expenses paid – 8 million JPY × number of months / 12 If negative, zero (all expenses are included in deductible expenses)
Corporations with stated capital (capital contribution) of more than 10 billion JPY	Amount of entertainment expenses paid – reception/food and beverage expenses ² × 50 / 100
Corporations other than those above	Amount of entertainment expenses paid

Select which to apply






1. This excludes corporations for which 100% of the total number of issued shares or the total amount of capital contribution is held by a corporation with stated capital of 500 million JPY or more.

2. Reception/food and beverage expenses” refer to food and beverage expenses which are part of entertainment and social expenses and clearly identified as food and beverage expenses by noting the prescribed items in the books and records.

4. Taxes and dues

i. Taxes and dues excluded from deductible expenses

In principle, taxes and dues are included in deductible expenses. However, some are excluded for reasons such as the following.

Those which, by their nature, fall under income disposition	Those with a penal nature	Refundable taxes
 <ol style="list-style-type: none"> 1. Principle corporate tax 2. Principle inhabitants tax <ul style="list-style-type: none"> • Prefectural inhabitants tax • Municipal inhabitants 	 <ol style="list-style-type: none"> 1. Penalty taxes on national taxes <ul style="list-style-type: none"> • Delinquent tax • Penalty tax for understatement • Penalty tax for failure to file • Heavy penalty tax • Penalty tax for non-payment • Delinquency tax on stamp tax 2. Delinquent charges, etc., on local taxes <ul style="list-style-type: none"> • Delinquent charges (excluding those related to extending the payment deadline) • Penalty charges for understatement • Penalty charges for failure to file • Heavy penalty charges 3. Fines, petty fines, non-penal fines <ul style="list-style-type: none"> • Traffic violation fines, etc. 4. Surcharges, etc. <ul style="list-style-type: none"> • Surcharges under provisions of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade 	 <ol style="list-style-type: none"> 1. Tax credits on income tax 2. Tax credits on foreign tax <p>*Foreign withholding tax on dividends of surplus and the like which are subject to the foreign dividend exclusion system will also be excluded from deductible expenses. However, for business years beginning on or after 1 April 2016, foreign withholding income tax and the like imposed on dividends that are not subject to the foreign dividend exclusion system may be included in deductible expenses.</p>

ii. Taxes included in deductible expenses

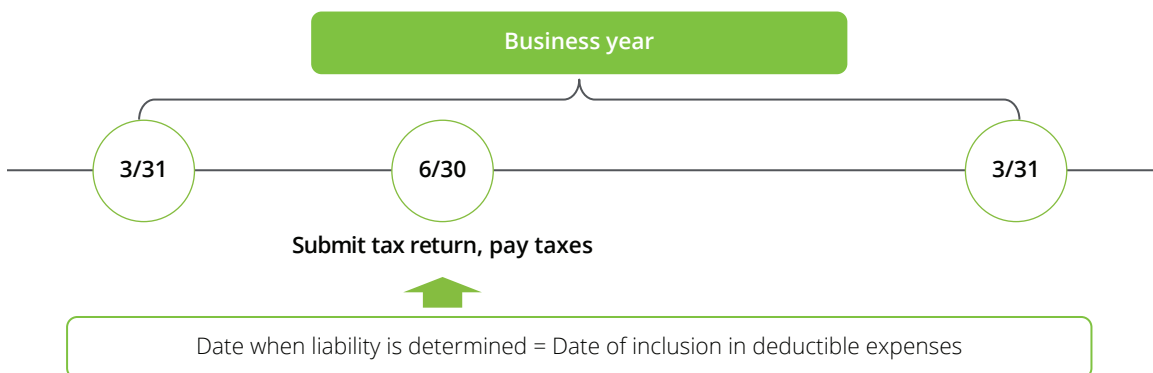
Taxes included in deductible expenses

- Interest on corporate taxes
- Delinquent charges (for the length of extended payment deadlines)
- Enterprise tax, special corporate enterprise tax
- Fixed asset tax, city planning tax, real estate acquisition tax, registration and license tax, etc.

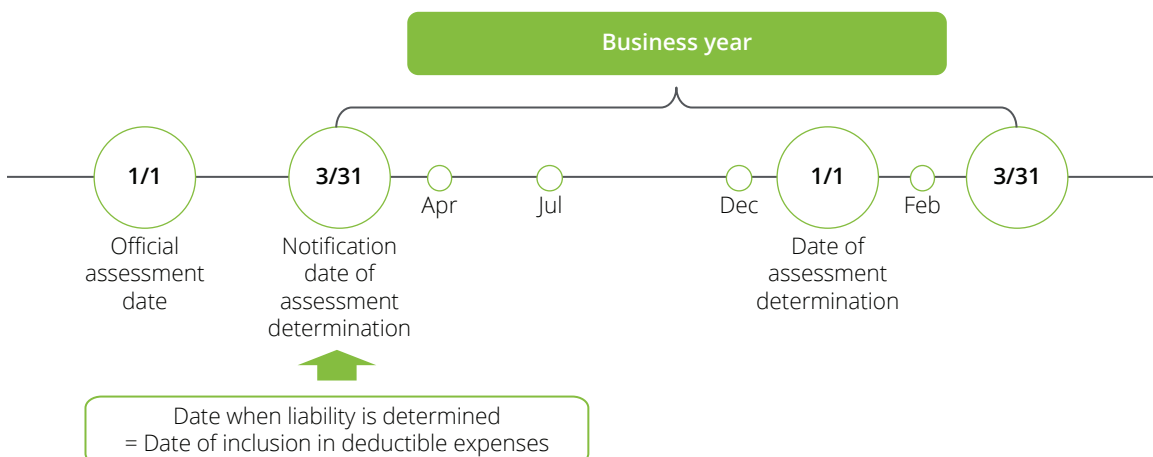
Date of inclusion in deductible expenses

Method	Date of inclusion in deductible expenses	Taxes which are included
Declaration method	Submission date of tax return	Enterprise tax, office tax, etc.
Official assessment method	Date on which the assessment was determined (either the date on which the deadline begins or the date on which the payment was made are also acceptable)	Fixed asset tax, real estate acquisition tax, automobile tax, etc.
Others	Date on which the payment was made	Golf course utilization tax, light-oil delivery tax, etc.

Declaration method: For enterprise tax



Official assessment method: For fixed asset tax

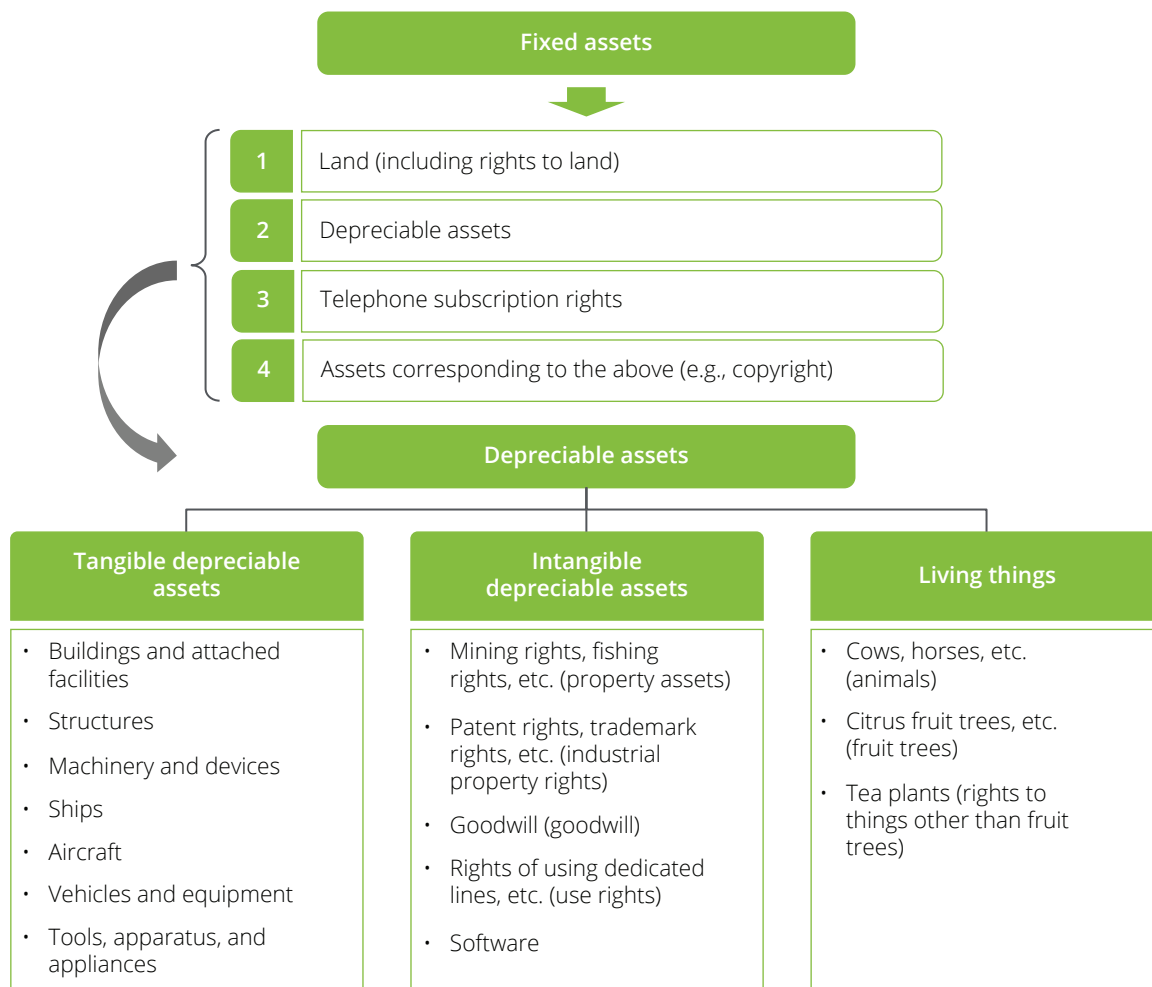


Date on which enterprise taxes and special local corporate taxes are included in deductible expenses

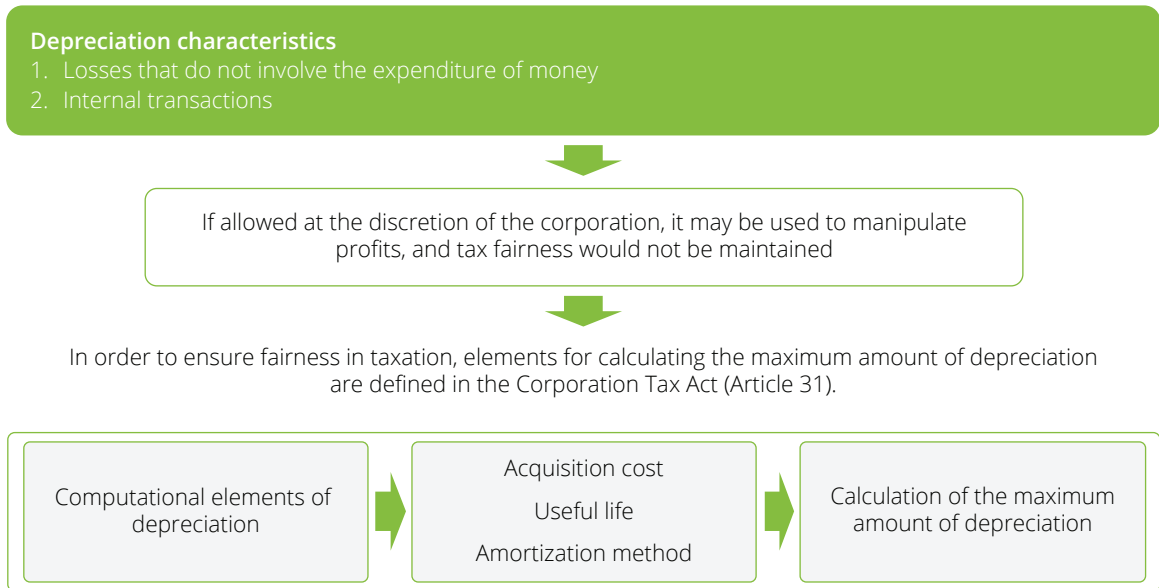
- | | |
|---|-----------------------------------|
| 1. Portion reported in a fixed tax return: At submission of the fixed tax return | } Deductible
even if
unpaid |
| 2. Portion reported in an interim tax return: At submission of the interim tax return | |
| 3. Portion reported in a fixed reassessment: At fixation of the reassessment | |

iii. Depreciable assets (including capital expenditures and repair expenses) and deferred assets

a. Definition of depreciable assets



b. Computational elements of depreciation



i. Acquisition cost

Acquisition cost of depreciable assets

As it has a material impact on the calculation of income, the amount to record as acquisition cost is regulated according to the manner of the acquisition and is based on the historical cost principle.

ii. Useful life

The useful lives of depreciable assets are listed in Appended Table 1 through 6 of the Ministerial Ordinance concerning the Useful Life, etc., of Depreciable Assets for each type, structure, use, and detail of depreciable assets.

iii. Residual value

Residual values for depreciable assets acquired on or after 1 April 2007 were abolished.

iv. Amortization method (for assets acquired on or after 1 April 2016)

Category	Selection scope	Legal amortization method
Tangible depreciable assets ¹	(1) Straight-line method (2) Declining-balance method	Declining-balance method
Intangible depreciable assets	Straight-line method	
Lease assets ²	Lease period straight-line method	

1. Only the straight-line method is used for depreciation of buildings and attached facilities, as well as structures, acquired on or after 1 April 2016

2. Only agreements regarding lease transactions that do not transfer ownership and were concluded on or after 1 April 2008.

iv. Carry forward of net operating losses for blue return filers

Corporations that submit blue returns are provided with a system in which net operating losses can be carried forward and deducted from future profits or carried back for a refund.

Inclusion of carry forward losses in deductible expenses for blue return filers

If a corporation submitting blue returns wishes to carry forward net operating losses from one of the business years described below, an amount equivalent to the maximum amount deductible may be included in deductible expenses when calculating the amount of income for a business year (losses that have already been included in deductible expenses in a previous business year or carried back for a tax refund are excluded from the amount that can be carried forward).

Period over which net operating losses incurred in a business year for which a blue return was filed may be carried forward Ten years from the subsequent year of a business year beginning on or after 1 April 2018, in which the net operating loss was incurred

Limitation on the creditable amount for net operating losses

Category	Business year	Limitation on creditable amount
Corporations with stated capital (capital contribution) of 100 million JPY or less*		Income amount for that business year
	Business years starting on or before 31 March 2015	80% of income amount for that business year
	Business years starting between 1 April 2015 and 31 March 2016	65% of income amount for that business year
Corporations other than the above	Business years starting between 1 April 2016 and 31 March 2017	60% of income amount for that business year
	Business years starting between 1 April 2017 and 31 March 2018	55% of income amount for that business year
	Business years starting on or after 1 April 2018	50% of income amount for that business year

*This excludes corporations for which 100% of the total number of issued shares or the total amount of capital contribution is held by a corporation with stated capital of 500 million JPY or more.

Requirements

1. The corporation filed a blue form tax return for the business year in which the net operating loss was incurred.
2. The corporation has been filing tax returns for consecutive years since the business year in which the net operating loss was incurred.
3. Net operating losses are included in deductible expenses sequentially from the earliest business year.
4. Books and documents for the business year in which the net operating loss was incurred are to be preserved.

v. Tax rate

a. Tax rate on income for each business year

The outline of the corporate tax rate is as follows.

For stock companies, the tax rate that applies to an ordinary corporation differs slightly depending on the company's amount of capital. For companies planning to generate income over 8 million JPY, the difference in the amount of tax levied due to the difference in capital will be 336,000 JPY (8 million JPY × (23.2%–19%)) for business years starting on or after 1 April 2018.

Category		Tax rate	
		Business years starting on or after 1 April 2019	
Ordinary corporations, corporate associations without juridical personality, etc.	Small and medium-sized enterprises ¹ , corporate associations without juridical personality, etc.	Portion equal to or less than 8 million JPY per year	19% ²
		Portion exceeding 8 million JPY per year	23.2%
	Corporations other than small and medium-sized enterprises, as well as mutual companies		23.2%
Corporations deemed to be general incorporated associations, public interest corporations, etc.		Portion equal to or less than 8 million JPY per year	15%
		Portion exceeding 8 million JPY per year	23.2%
Public interest corporations, etc.		Portion equal to or less than 8 million JPY per year	15%
		Portion exceeding 8 million JPY per year	19%
Cooperatives, etc.		Portion equal to or less than 8 million JPY per year	15%
		Portion exceeding 8 million JPY per year	19%
		Portion exceeding 1 billion JPY per year for specified cooperatives, etc.	22%

1. This excludes corporations for which another corporation with stated capital of 500 million JPY or more holds a full controlling interest in that corporation.

2. 15% would apply to corporations other than corporations whose average taxable income for each business year that ended within 3 years prior to the first day of the business year exceeds 1.5 billion JPY.

b. Special tax rate

In certain cases, a special tax rate will be imposed in addition to the tax rate above.

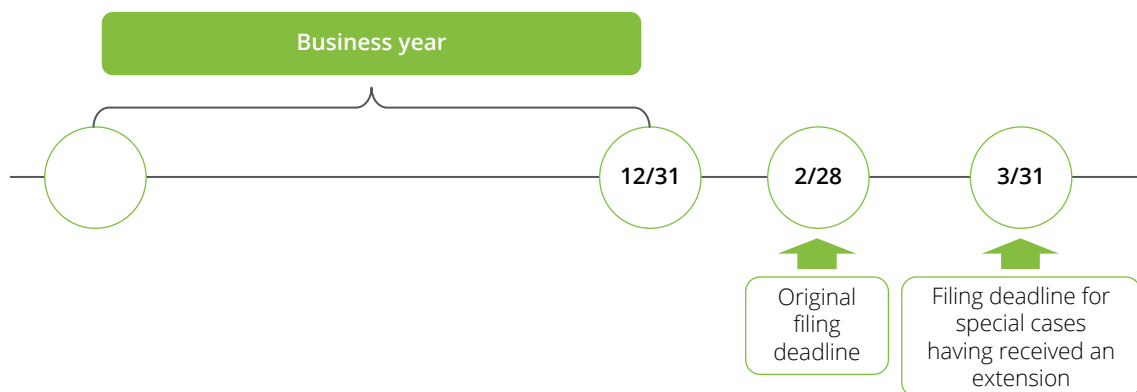
Corporation category	Categories of taxable income amount	Tax rate	
Designated family companies	Taxable retained earnings	Portion equal to or less than 30 million JPY per year	10%
		Portion exceeding 30 million but 100 million JPY or less per year	15%
		Portion exceeding 100 million JPY per year	20%
Corporations that have expenditures for confidential purposes (excluding public corporations)	Amount of expenditures for confidential purposes	40%	
Corporations that have transferred long-term or short-term land holdings, etc.*	Amount of taxable profit on land transfers	Amount related to long-term land holdings, etc.	5%
		Amount related to short-term land holdings, etc.	10%

*Currently suspended.

vi. Tax payment schedule for corporate tax

- a. Deadline for filing: In principle, 2 months from the day after the end of the business year

Exceptions: When a corporation must undergo an audit by an accounting auditor or other similar reasons □ An extension of 1 month can be granted (prior application for extension approval is required)

For business years ending in December

- b. Tax payment deadline: By the submission deadline for the corporate income tax return

Even if the filing deadline has been extended due to a special case, the deadline is not extended for payment. Thus, such corporations will be subject to interest (deductible). For this reason, it is more appropriate, in practice, to reduce the interest burden by making an estimated payment within 2 months of the end of the business year and paying the difference of tax owed as determined by the corporate tax return by the filing deadline. Interest on corporate tax is calculated at the rate of 7.3% per year (in special cases, the rate announced by the Minister of Finance at the base period plus 1%), depending on the length of period from the day following the original filing deadline (legal deadline) to the day on which the amount of tax that was left unpaid during the extension period was paid.

- c. Interim tax returns

Ordinary corporations with business years exceeding 6 months are required, in principle, to file an interim return within 2 months of the first day of the business year. The following two methods exist for filing interim tax returns, and corporations may choose either method (with the exception of newly established corporations).

- i. Planned tax returns based on the results of the previous business year: The amount calculated by the following formula will be declared as the tax amount for the interim period.

$$\text{Corporate tax amount from the previous business year} \quad \text{X} \quad \frac{6}{\text{\# of months in the previous business year}}$$

Note: If the tax amount calculated by the above formula is 100,000 JPY or less, corporations are not required to file planned tax returns.

- ii. Interim tax returns based on provisional settlement of accounts: These are filed by treating the period of 6 months after the start of the business year as 1 business year.

- Note: Interim tax returns based on provisional settlement of accounts cannot be filed in the following cases.
- If the amount calculated by the formula detailed above in item a) is 100,000 JPY or less, or if there is no such amount.
- If the amount of corporate tax that should be stated in the interim tax return based on the provisional settlement of accounts exceeds the amount calculated by the formula in item a) above.

vii. Taxable retained earnings of designated family companies

a. Outline

Income of a corporation is usually paid as dividends and taxed to the person who receives the payment. In the case of designated family companies, these dividends may not be paid at the will of certain shareholders, resulting in them being retained by the company.

For this reason, if a designated family company retains income for each business year and this accumulates over a certain limit, the excess amount will be subject to taxation at a special tax rate in addition to the regular corporate tax.

b. Determining whether a company is a designated family company

A company whose ratio in the following formula exceeds 50% (as of the final day of the business year).

Formula

$$\frac{\text{Total number of shares or total amount of capital contribution held by 1 shareholder group¹ of the company}}{\text{Total number of shares issued or amount of capital contribution held by the company²$$

1. With the exception of companies that own their own shares or capital contributions, shareholders as well as individuals and corporations that have a special relationship with said shareholders, are grouped together.

2. This excludes shares or capital contributions held by the company.

a. Special tax rate

Portion equal to or less than 30 million JPY per year: 10%

Portion exceeding 30 million JPY per year: 15%

Portion exceeding 100 million JPY per year: 20%

b. Exceptions

The retained earnings of designated family companies that file blue returns are not taxed for the following corporations and business years:

i. Corporations with stated capital amounts of 100 million JPY or less as of the end of the business year (except for those in which a corporation with a stated capital amount of 500 million JPY or more has a full controlling interest)

ii. Corporations under liquidation proceedings

viii. Negation of actions or calculations by a family company

a. Purpose

Even if it is generally a legal act, when there are certain transactions between the members of a family company*, if the tax burden is unjustifiably reduced compared to other non-family companies in similar circumstances, the competent district director may calculate the corporate tax amount as if the act had not taken place.

*Refers to a corporation whose ratio exceeds 50% when the formula for determining whether a company is a designated family company introduced in item (10)2 is evaluated by using 3 shareholder groups for the numerator.

b. Conditions of negation

Negation is possible only if the following two requirements are met:

i. An "action" or "calculation" of the family company is the subject of the negation

ii. The case is such that, if allowed, would result in an unjustified reduction in the company's corporate tax burden

c. Corrections or determinations by the competent district director

Regardless of the action or calculation, in the event that any of the requirements of (10)2 above are met, the competent district director will calculate the company's corporate tax base, net operating, loss or corporate tax amount.

ix. Retention period for books and records

Corporations that file blue returns are required to keep their books and documents for 7* years after the deadline for filing tax returns for that business year. Specific examples of books and documents are as follows:

Examples of books	General ledgers, journals, cash ledgers, trade accounts receivable ledgers, trade accounts payable ledgers, fixed asset ledgers, sales ledgers, purchase ledgers
Examples of records	Inventory sheets, balance sheets, income statements, order forms, contracts, receipts

*If carrying forward any losses, books and documents must be kept for up to 10 years depending on the period over which the amount is carried forward.

x. Tax examinations

a. Outline of tax examinations

The tax authorities (e.g., tax offices, regional taxation bureaus) investigate whether taxpayers have correctly fulfilled their tax obligations and whether the income and tax amounts reported by the taxpayers have been properly calculated. If an error is discovered, either the tax authority will issue an amendment or a determination, or the taxpayer will voluntarily file an amended return.

There are two types of tax examinations: compulsory examinations carried out in accordance with the National Tax Violations Control Act and voluntary examinations based on the right to inquire and inspect as stipulated in each tax law. The examination that many companies undergo is the latter, voluntary examinations.

Declaration	Examination result	Correction method	Response
Declared	Appropriate	N/A	None
	Income/tax amount too low	Voluntary correction	Amended return
		Ex officio correction	Reassessment ¹
		Voluntary correction	Not possible
	Income/tax amount too high	Ex officio correction	Reduction reassessment
			Reassessment via request for reassessment ²
			Reassessment via petition, appeal, etc.
Undeclared	Income and taxes are determined ¹ ex officio.		

1. There is a period of exclusion for reassessments and determinations made ex officio by tax offices. The period of exclusion is 5 years for determinations, and 5 years for reassessments for corporate taxes if the tax return had been submitted on time.

2. In principle, the deadline for submitting requests for reassessment is within 5 years from the legal filing deadline

b. Delinquency tax

The following penalty taxes and delinquent taxes will be imposed as a type of administrative penalty for failure to file a proper return or make proper payments by the legal deadline for return or payment of national taxes paid based on the declaration method or pay-as-you-go method.

Type	Conditions for taxation	Tax rate ¹	Non-application or tax rate reduction	
			Conditions	
Penalty tax for understatement	When the amount stated in the tax return filed within the deadline is insufficient and an amended return or reassessment is required	10% ²	When there is a justifiable reason for correcting the tax calculation before the amended return or reassessment	Not applied
			When the taxpayer files an amended return without knowing that a reassessment will be made before a notification of investigation ⁵	
			When the taxpayer files an amended return without knowing that a reassessment will be made after a notification of investigation ^{2 6}	5% ²
Penalty tax for failure to file	When (1) a tax return was not filed by the deadline and either a determination is issued or return is filed afterward, and when (2) a return was filed or determination was issued after the deadline and either an amended return is filed or reassessment is issued	15% ³	When there is a justifiable reason for failure to file a return on time	Not applied
			When the taxpayer files a tax return or amended return after the deadline without knowing that a determination or reassessment will be made before a notification of investigation ⁵	
			When the taxpayer filed a tax return or amended return after the deadline without knowing that a reassessment will be made after a notification of investigation.	10% ³
Penalty tax on non-payment	When a taxpayer fails to pay the amount of tax to be paid through withheld tax by the legal deadline and instead makes payment or gives notice of payment after the legal deadline	10%	When the taxpayer has a justifiable reason for failing to pay by the legal deadline	Not applied
			When the taxpayer pays the tax after the legal deadline without knowing that a notice of tax payment will be given	

Type	Conditions for taxation	Tax rate ¹	Non-application or tax rate reduction
			Conditions
Heavy penalty tax ⁴	When facts that become the basis of calculating national taxes are concealed or falsified on a filed tax return where a penalty tax for understatement is imposed	35%	
	When the above unlawful act is committed where a penalty tax for failure to file is imposed	40%	
	When the above unlawful act is committed where a penalty tax for non-payment is imposed	35%	
Delinquency tax	When the taxpayer fails to pay the tax by the legal deadline without following the proper procedure	The annual rate of 14.6% ⁶ shall be applied to the unpaid tax amount for the period from the day after the deadline to the day on which such national taxes are paid in full. However, the rate is 7.3% ⁷ for the period up to the deadline and until the day on which 2 months have elapsed from the day following the deadline.	

1. The tax rate applies to the total amount of tax due after an amendment, reassessment, and/or determination.
2. An additional 5% as well as the above tax rates will be imposed on the portion of tax exceeding the amount equivalent to either the amount of tax due based on the return filed before the deadline or 500 thousand JPY, whichever is greater.
3. An additional 5% as well as the above tax rates will be imposed on the portion of tax exceeding the amount equivalent to either the amount of tax due exceeds 500 thousand JPY.
4. Heavy penalty taxes are imposed in lieu of other penalty taxes, and not together with other taxes.
5. A notification of investigation includes 1) the fact that an implementation investigation will be conducted, 2) tax type to be investigated, 3) the period to be investigated.
6. If the special standard rate plus 7.3% is lower, this will be applied instead.
7. If the special standard rate plus 1% is lower, this will be applied instead.

c. System for filing an appeal

If one is dissatisfied with a reassessment or determination made from a tax examination, several procedures are provided which serve as remedial measures: an objection may be filed with the competent district director (or the director of the regional taxation bureau) and a request for review with the director of the National Tax Tribunal.

xi. Consolidated tax return filing system

A Japanese domestic parent corporation and its 100%-owned domestic subsidiaries may elect to file a consolidated tax return for national tax purposes only, i.e., local taxation is calculated on a stand-alone basis. Once a group has been approved for the consolidated tax regime, in principle, the group cannot voluntarily revoke this status.

Consolidated taxable income is calculated for the consolidated group as a single tax unit by aggregating the separate taxable income of each subsidiary in the group and applying necessary adjustments. The consolidated tax liability is calculated based on consolidated taxable income multiplied by the applicable tax rate, adjusted for various tax credits. The group's consolidated tax liability is allocated to the individual corporations in the group based on the taxable income or loss of each corporation.

In principle, when forming/joining the consolidated group, existing subsidiaries are subject to the mark-to-market rule and forfeiture of their existing NOLs. There are some exceptions whereby mark-to-market would not apply and a separate return limitation year rule (under which a subsidiary's NOLs incurred before joining the group can be carried forward and offset

only against its own taxable income) would be available for subsidiaries held for more than five years and subsidiaries that meet certain requirements.

The current consolidated tax system will transition to a group aggregation system for fiscal years beginning on or after 1 April 2022. Group aggregation still will allow group companies to offset profits and losses, but will introduce a number of changes to the current rules. In particular, consolidated filing no longer will be available, and each group company will be required to file a separate tax return for its allocated portion of group profit/loss. In addition, certain changes will be made to the rules regarding mark-to-market and treatment of existing NOLs on formation/joining the group, which may provide an exemption in some cases.

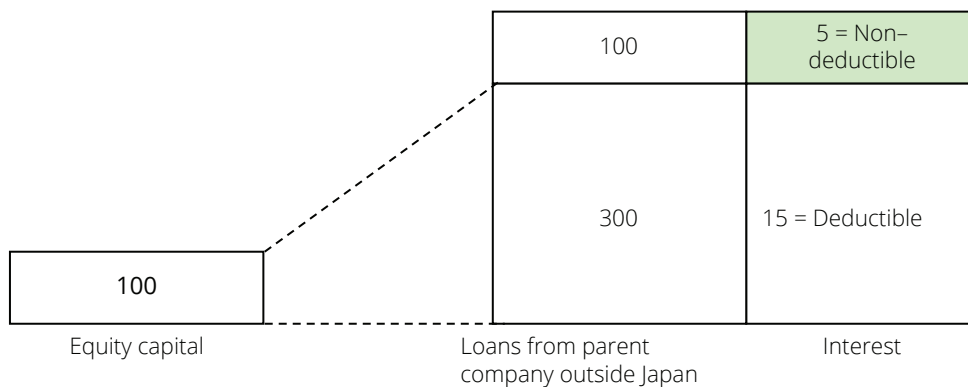
5. Thin capitalization rules

1. Outline

When paying interest on liabilities to foreign-affiliated companies and the like (e.g., foreign controlling shareholders), if the amount of borrowings from a foreign-affiliated company exceeds by 3 times the amount of equity capital held by the domestic corporation, the interest paid corresponding to the excess portion will in principle not be included in deductible expenses.

Furthermore, if a different multiplier is deemed appropriate in light of the debt or equity ratio of similar domestic corporations engaged in the same type of business, a domestic corporation may use that multiplier instead of 3 (provided that the domestic corporation has stated this in its income tax return and has preserved materials that clarify the appropriateness of the multiplier).

Illustration



2. Foreign controlling shareholder

A foreign controlling shareholder refers to a non-resident or foreign corporation that has a direct or indirect relationship with a domestic corporation, in which it directly or indirectly owns 50% or more of the total number of issued shares or capital contribution of the domestic corporation, or has any other special relationship with that domestic corporation.

3. Determining application

Thin capitalization rules are applied if the ratios explained in both A and B exceed 3 (or, if using the multiplier of similar domestic corporations, that multiplier) for each business year.

A	Ratio of interest-bearing liabilities owed to a foreign controlling shareholder to the equity capital of the domestic corporation	Average balance of interest-bearing liabilities owed to foreign controlling shareholder for the relevant business year
		Equity interest of foreign controlling shareholder, pertaining to the relevant domestic corporation in the relevant business year
B	Ratio of total interest-bearing liabilities to the equity capital of the domestic corporation	Average balance of total interest-bearing liabilities for the relevant business year
		Amount of equity capital for the relevant business year

4. Calculating the amount to be excluded from deductible expenses

The following formula is used to calculate this:

If the difference between the average liabilities balance pertaining to total interest-bearing liabilities for the current period and the amount equivalent to 3 times the amount of net assets is smaller than the value of the numerator, the difference is used as the amount of the numerator.

$$\begin{array}{c} \text{Total amount of interest paid} \\ \text{to foreign controlling} \\ \text{shareholder during the period} \end{array} \times \frac{\begin{array}{c} \text{(a) - Equity interest of foreign controlling shareholder in} \\ \text{the domestic company's net assets} \times 3 \end{array}}{\text{Average balance of interest-bearing liabilities owed to} \\ \text{foreign controlling shareholder (a)}}$$

6. Earnings stripping rules

1. Outline

When corporations pay certain interest on liabilities and the amount of net interest paid by the corporation for the relevant business year exceeds an amount equivalent to 20% of its adjusted income amount, the excess amount is categorized as excess interest and excluded from deductible expenses. Any amount categorized as excess interest is carried forward for 7 years starting from the subsequent business year and is included in deductible expenses up to the amount remaining after deducting interest from 20% of the adjusted income.

2. Amount of net interest expense subjected to this system

This refers to the amount remaining after deducting the corresponding amount of interest received from interest payments (excluding those that are included in the taxable income on Japanese corporate taxes of the recipient of the interest)

3. Adjusted income amount

This refers to the total amount of items a) and b) below.

a) Taxable income

Amount of subjected net interest expense and amount of depreciation expenses included in deductible expenses

4. Amount excluded from deductible expenses

The following formula is used to calculate the non-deductible amount:

$$\text{Non-deductible amount} = \text{subjected net interest expense} - \text{adjusted income} \times 20\%$$

5. Exceptions

When the subjected net interest expense is small (20 million JPY or less)

When the total amount of subjected net interest expense of the relevant parties is less than or equal to a certain percentage (20%) of the total amount of adjusted income of those parties

6. Relationship to thin capitalization rules

Thin capitalization rules will not be applied if the amount of non-deductible expenses calculated by these rules falls below the amount of non-deductible expenses calculated by earnings stripping rules.

Thin capitalization rules are applied to cases that fall under the exceptions for earnings stripping rules as described in item 5 above.

02. Local tax

Taxes on corporate income comprise national taxes where the national government is the sovereign entity with taxing authority, and local taxes where local governments are the sovereign entity with taxing authority. The following is a general overview of local taxes:

Local taxes include the corporate enterprise tax, special corporate enterprise tax, and corporate inhabitants tax.

1. Corporate enterprise tax

a. Basis for taxpayers (assuming an ordinary corporation)

Corporation capital	Tax basis	
Over 100 million JPY	Income	Business size
100 million JPY or less	Income	

b. Implementation of the size-based enterprise tax

Corporations receive a variety of administrative services from local governments in the course of their business activities. Thus, corporations must bear costs incurred by the local government for the smooth operation of their business activities.

As such, from the viewpoint that tax should be borne in proportion to the benefit received from administrative services, the tax basis is not based on income, but on the "size" of a business, which represents the scale and volume of business activities. This is the basic concept of size-based enterprise taxation.

However, size-based enterprise taxes are only levied on corporations with stated capital exceeding 100 million JPY.

c. Tax basis

i. Corporations with stated capital exceeding 100 million JPY

- Income basis: Based on income (the income for each business year)
- Business-size basis: Based on capital and value added

Business size basis	Based on capital	Amount of capital in each business year ¹
	Based on value added	Amount of value added in each business year ²

1: "Amount of capital" = stated capital + capital surplus reserve

2: "Amount of value added" = remuneration and salary + net interest expense + net rent expense ± profit and loss of the single business year

ii. Corporations with stated capital of 100 million JPY or less

Income basis: Based on income (the income for each business year)

d. Tax rate (standard tax rate)

Corporations with stated capital exceeding 100 million JPY

Based on income			Based on capital	Based on value added
Standard tax rate	Portion of income exceeding 8 million JPY per year + liquidation income	1.0% (3.6%)	0.5%	1.2%
	Portion of income exceeding 4 million JPY per year but 8 million JPY or less per year	0.7% (2.5%)		
	Portion of income that is 4 million JPY or less per year	0.4% (1.4%)		

*The above tax rate is the standard tax rate. The tax rate varies from 1-1.2 times (only based on income tax 1-1.7 times) the standard tax rate (limited tax rate) depending on the prefecture.

*The bottom tax rate in parentheses is the tax rate after the application of special corporate enterprise tax.

Corporations with stated capital of 100 million JPY or less

Income tax percentage		
Standard tax rate	Portion of income exceeding 8 million JPY per year	7.0% (9.6%)
	Portion of income exceeding 4 million JPY per year but 8 million JPY or less per year	5.3% (7.3%)
	Portion of income that is 4 million JPY or less per year	3.5% (4.8%)

*The above tax rate is the standard tax rate. The tax rate varies from 1-1.2 times the standard tax rate (limited tax rate) depending on the prefecture.

*The bottom tax rate in parentheses is the tax rate after the application of special corporate enterprise tax.

e. Filing and payment

i. Paying tax based on income tax returns

In principle: Within 2 months after the end of each business year

Exceptions: When there are reasons such as needing to undergo an audit by an accounting auditor

→ An extension of 1 month is possible with prior application for approval

Where to submit income tax returns: the tax office of each prefecture

ii. Paying tax based on interim tax returns

- Interim tax returns based on the performance of the previous business year

Pay 1/2 of the corporate enterprise tax amount from the previous business year.

- Interim tax returns based on provisional settlement of accounts

The interim accounting period (a period of 6 months from the start of the business year) is regarded as 1 business year, and tax returns and payments are made based on the results of a provisional settlement of accounts.

2. Corporate inhabitants tax (corporate prefectural inhabitants tax + corporate municipal inhabitants tax)

a. Taxpayer

Corporate inhabitants taxes are taxed on a per capita or a corporate tax basis, as shown below.

Taxation item	Type	Taxpayer
Corporate prefectural inhabitants tax	Per capita basis	Those who have an office or place of business in a prefecture
	Corporate tax basis	
Corporate municipal inhabitants tax	Per capita tax basis	Those who have an office or place of business in a municipality
	Corporate tax basis	

b. Tax rate

i. Corporate prefectural inhabitants tax

- Per capita basis (taxation according to capital amount)

Amount of capital	Yearly amount
Over 5 billion JPY	800,000 JPY
Over 1 billion JPY, but at or less than 5 billion JPY	540,000 JPY
Over 100 million JPY, but at or less than 1 billion JPY	130,000 JPY
Over 10 million JPY, but at or less than 100 million JPY	50,000 JPY
Amount other than the above	20,000 JPY

*The above tax rate is the standard tax rate. The tax rate varies from 1-1.2 times the standard tax rate (limited tax rate) depending on the prefecture.

- Corporate tax rate (taxation according to corporate tax amount)

Corporate tax rate = corporate tax amount × standard tax rate (1.0%)

*The above tax rate is the standard tax rate. The tax rate varies from 1-2 times the standard tax rate (limited tax rate) depending on the prefecture.

ii. Corporate municipal inhabitants tax

- Per capita basis (taxation based on amount of capital as well as number of employees)

Amount of capital	Number of employees	Yearly amount
Over 5 billion JPY	More than 50	3,000,000 JPY
Over 1 billion JPY, but at or less than 5 billion JPY	More than 50	1,750,000 JPY
Over 1 billion JPY	50 or less	410,000 JPY
Over 100 million JPY, but at or less than 1 billion JPY	More than 50	400,000 JPY
Over 100 million JPY, but at or less than 1 billion JPY	50 or less	160,000 JPY
Over 10 million JPY, but at or less than 100 million JPY	More than 50	150,000 JPY
Over 10 million JPY, but at or less than 100 million JPY	50 or less	130,000 JPY
1,000 JPY or less	More than 50	120,000 JPY
Amount other than the above		50,000 JPY

*The above tax rate is the standard tax rate. The tax rate varies from 1-1.2 times the standard tax rate (limited tax rate) depending on the prefecture.

- Corporate tax basis

Corporate tax rate = corporate tax amount × standard tax rate (6.0%)

*The above tax rate is the standard tax rate. The tax rate varies from 1-1.4 times the standard tax rate (limited tax rate) depending on the prefecture.

c. Filing and payment

i. Paying tax based on income tax returns

In principle: Within 2 months after the end of each business year

Exceptions: When there are reasons such as needing to undergo an audit by an accounting auditor

→ An extension of 1 month is possible with prior application for approval

Where to submit the income tax return is as follows:

- Corporate metropolitan and prefectural inhabitants tax: the tax office of each prefecture
 - Corporate municipal inhabitants tax: the tax section or general affairs section at city and town halls
- ii. Paying tax based on interim tax returns

- Interim tax returns based on the performance of the previous business year
Pay 1/2 of the corporate enterprise tax amount from the previous business year.
- Interim tax returns based on provisional settlement of accounts

The interim accounting period (a period of 6 months from the start of the business year) is regarded as 1 business year, and tax returns and payments are made based on the results of a provisional settlement of accounts.

III. Taxes levied on personal income

Category		Income tax	Resident tax
(1)	Individuals that do not fall under (2), (3), or (4) below	Income tax is withheld from monthly salaries and the annual tax amount is settled through year-end adjustment (conducted by the payer of the salary).	The salary payer submits a report of salary payment to the municipality in which the salary earner's address is located. The resident tax for the following business year is calculated based on these reports. While it is common to collect this type of tax by deducting it from salary (special collection), one can also choose to pay it on their own (ordinary collection).
(2)	Employment income from primary employer exceeds 20 million JPY	Income tax is withheld from the monthly salary, but no year-end adjustment is made, so individuals need to file an income tax return.	
(3)	Individual receives employment income from 2 or more companies	Income tax is withheld at the time of payment from both the primary and secondary employers and is adjusted at the end of the year by the primary employer, but the portion corresponding to payments from the secondary employers must be added together and an income tax return filed.	There is no need to file a separate resident tax return, as the individual will file an income tax return. Either the special or ordinary collection method is used, depending on which of the two the individual has chosen.
(4)	Individual has income other than employment income	(1), (2), or (3) above will apply for employment income, but an income tax return summing it with other income must also be filed.	
	Non-salaried employees with certain conditions	Income tax returns are filed after one has checked to see whether they are required.	There is no need to file a separate resident tax return, as the individual will file an income tax return. The ordinary collection method used.

Employment income" refers to remuneration received from an employer (e.g., a corporation such as a stock company or a sole proprietorship) based on an employment or similar contract as compensation for labor.

In addition to income tax, a special reconstruction income tax is imposed for each year until 2037.

01. Taxable types of income

Personal income is calculated and taxed on a calendar year basis.

Type of income	Key elements of income	Calculation method for amount of taxable income
Interest income	Interest on deposits and savings, etc.	Income amount
Dividend income	Dividends from stocks, etc.	Income amount – interest on debt required to acquire principal
Real estate income	Rent income, etc.	Total income amount – necessary expenses
Business income	Profit from private stores, etc.	Total income amount – necessary expenses
Employment income	Salary, bonuses, etc.	Income amount – amount deducted from employment income
Retirement income	Retirement payments, etc.	(Income amount – amount deducted from retirement income) × 1/2
Forestry income	Profit from cutting down and selling forests, etc.	Total income amount – necessary expenses – special deduction amount
Income from transfer	Profit from the transfer of assets, etc.	Total income amount – (acquisition cost + transfer expenses) – special deduction amount
Temporary income	Temporary income such as prize money, etc.	Total income amount – expenditure amount incurred for that income – special deduction amount
Miscellaneous income	Public pension	Income amount – amount deducted from public pension
	Income other than the above	Income amount – necessary expenses

Note: The taxable income amount for temporary income and income from transfers that are long-term (a holding period exceeding 5 years) is calculated by multiplying the income amount by 1/2.

02. Tax rates for comprehensive taxation and separate taxation

In principle, comprehensive taxation is used for income tax in which all income is added together, and a progressive tax rate applied.

However, certain income is subject to separate taxation in which a progressive tax rate or a fixed tax rate is applied separately.

01. Comprehensive taxation

When comprehensive taxation is applied, income tax is calculated by multiplying the taxable gross income after income deductions by the progressive tax rate.

- a. Income subject to comprehensive taxation

	<ul style="list-style-type: none">• Interest income (other than things subject to separate withholding taxation)• Dividend income (income other than that for which no income tax return is required)• Employment income• Real estate income
Gross income	<ul style="list-style-type: none">• Business income (other than income subject to separate taxation)• Income from transfer (income from the transfer of assets other than land, buildings, etc., or stocks, etc.)• Temporary income• Miscellaneous income (other than income subject to separate taxation)

b. Tax rate on gross income

Taxable gross income = gross income – income deductions (e.g., deductions for spouses, dependents, medical expenses)

Income tax = taxable gross income × progressive tax rate



Quick tax calculation table

Taxable gross income = A	How to calculate income tax
1,000 to 1,950,000 JPY	$A \times 5\%$
1,950,001 to 3,300,000 JPY	$A \times 10\% - 97,500$ JPY
3,300,001 to 6,950,000 JPY	$A \times 20\% - 427,500$ JPY
6,950,001 to 9,000,000 JPY	$A \times 23\% - 636,000$ JPY
9,000,001 to 18,000,000 JPY	$A \times 33\% - 1,536,000$ JPY
18,000,001 to 40,000,000 JPY	$A \times 40\% - 2,796,000$ JPY
Over 40,000,000 JPY	$A \times 45\% - 4,796,000$ JPY

02. Separate taxation

When separate taxation is applied, it is levied separately from comprehensive taxation explained in item (1) above.

In this case, tax is paid either through the declaration or pay-as-you-go method.

a. Income subject to comprehensive taxation

	Income amount	Applicable income	Income tax	Local tax	
Separate taxation (declaration method)	Short-term income from transfer	Income from transfer (short-term transfer of land, buildings, etc.)	30%	9%	
	Long-term income from transfer	Income from transfer (long-term transfer of land, buildings, etc.)	15%	5%	
	Income from transfer pertaining to stocks as well as public and corporate bonds, etc.	Income from transfer		15%	5%
		Miscellaneous income			
	Miscellaneous income pertaining to futures trading, etc.	Business income		15%	5%
		Miscellaneous income			
Forestry income			Progressive tax rate*		
			(The "Divide by 5 and multiply by 5" split taxation)		
Retirement income			Progressive tax rate*		
Separate taxation (pay-as-you-go method)	Divided income	Dividends of listed stocks for which an income tax return has been decided to not be required, etc.	15%	5%	
		Dividends other than those for listed stocks for which an income tax return has been decided to not be required, etc.	20%	None	
	Interest income		15%	5%	

*The progressive tax rate is the same as the tax rate on taxable gross income.

03. Special reconstruction income tax

Special reconstruction income tax is calculated by multiplying the income tax calculated by the formula explained in item 2 (1) and (2) by 2.1%.

04. Total profit and loss

If a deficit exists in the amount of real estate income, business income, forestry income, or income from transfer out of the various types of income, it can be aggregated into the amounts of other income in a certain order. However, there are several exceptions.

- Losses on real estate income or income from transfer arising from assets not normally required for daily living (e.g., vacation homes, racehorses) cannot be aggregated into total profit and loss. However, it is possible to aggregate losses from the transfer of a racehorse with the miscellaneous income from owning a racehorse.
- Of the losses on real estate income, the portion equivalent to interest on debt accrued for the acquisition of land and the like cannot be aggregated with total profit and loss.
- Losses on income from transfer of land, buildings and the like cannot be aggregated with total profit and loss except for those incurred from the transfer of certain residential property.
- Losses on business income, income from transfer, and miscellaneous income from stocks, public or corporate bonds and the like can only be aggregated between these incomes and cannot be aggregated into the total profit and loss of other incomes.
- Losses on miscellaneous income and business income pertaining to futures trading are considered to not exist.
- Losses on the transfer of listed stocks, specified public or corporate bonds and the like can be aggregated with total profit and loss on dividend income. Furthermore, losses pertaining to the transfer of listed stocks and the like can be carried forward and aggregated with total profit and losses for income from transfers as well as dividend income on listed stocks, specified public or corporate bonds and the like for 3 years starting from the following year.

05. Net losses carried forward

If there are losses that cannot be fully deducted by the aforementioned total profit and loss aggregation, the total amount of that loss (referred to as "net losses") can be carried forward and deducted in the calculation of the gross income, forestry income, and retirement income for 3 years starting from the year following the year in which the loss was incurred.

1. Applicable losses

- a. Individuals filing a blue return: the entire amount of net losses excluding:
 - i. The portion already carried forward and deducted in the previous years
 - ii. The portion used as the basis for the calculation of refund for net losses carried backward
 - iii. Specified net loss pertaining to transfer losses on purchases of replacement residential properties
 - iv. Specified net loss pertaining to transfer losses on specified residential property
- b. Individuals filing a white return: the following portion of net losses:
 - i. Loss resulting from the calculation of variable income
 - ii. Loss on disaster-stricken business assets

2. Requirements

Net losses can be carried forward only if the taxpayer files a blue return or a white tax return on time for the year in which the net loss was incurred, and then files an income tax return for every subsequent year after that.

* Separate provisions exist for carrying forward transfer losses on residential property pertaining to purchases of replacement residential properties, transfer losses on specified residential property, transfer losses on listed shares and specified public or corporate bonds, transfer losses on specified shares, losses on miscellaneous income pertaining to futures trading, and miscellaneous losses (losses resulting from disaster, theft, etc.).

06. Items not taxed for salaried employees (main related items)

It may be possible to reduce the amount of income subject to personal income tax by utilizing the following types of benefits conveyed from companies that are not taxable in terms of personal income tax.

1. Commuting allowance

The amount of commuting allowance received in addition to one's regular salary that is considered to be usually required.

*The maximum amount exempt from taxation for the purpose of transportation is 150,000 JPY per month.

2. Housing provision

a. If the individual is an officer: If the individual pays an amount that exceeds the higher of either i) or ii), the difference in the amount paid is not taxed.

*However, luxurious company housing is excluded (in principle, 100% of the cost is borne by the employee)

i. The amount equivalent to rent calculated based on the standard amount of fixed asset tax of the building and property

ii. 1/2 of rent paid to the landlord

b. If the individual is an employee

If the individual pays 50% or more of the amount equivalent to rent calculated based on the standard amount of fixed asset tax of the building and property, the difference in the amount paid is not taxed.

3. Home-leave travel expenses

If the following conditions are met:

a. If a foreign national who plans to work in Japan long-term (generally 2 years or more),

b. while observing work regulations and the like,

c. returns to their home country after a reasonable period of time has passed (e.g., every year) for a leave of absence, payments of amounts equivalent to the normally required round-trip fare are not taxed.

4. Allowances such as moving allowance paid upon work transfer

Money and goods provided to cover the necessary expenses for travel of types listed below, which are considered to be usually necessary in view of the travel purpose, destination, route, length of period, necessity of lodging, as well as the duties and position of the traveler shall not be taxed.

a. Travel for the purpose of performing work duties away from one's place of employment

b. Travel for the purpose of relocating for a work transfer

c. Travel for the purpose of relocating involved in joining or quitting the company

d. Travel for the purpose of relocating the bereaved family members of an employee whose employment contract was terminated as a result of passing away

*The money and goods paid in the name of special assignment expenses, post-assignment accommodation expenses and the like paid in cases such as when an employee is relocated and has no choice but to relocate alone and temporarily leave dependents behind at the old location due to a lack of housing at the new location, are recognized as a kind of family separation allowance and are taxed as a part of the employee's salary.

5. Meal provision

Payment in kind for the following meals that meet certain conditions will not be taxed:

a. Provision of lunch and other meals

Meals, such as lunch, provided to executives or persons with duties as employees during regular working hours will not be taxed if any of the following applies:

i. The executive or person with duties as an employee pays for half or more of the value of the meal

ii. The company pays 3,500 JPY or less per month for the meals provided to the executive or person with duties as an employee

b. Provision of meals during overtime or overnight duty

When overtime or overnight duty is required and dinner or breakfast are provided, the meals are not taxed as they are deemed as additional meals which are required for work. However, if an allowance for work rendered by way of overnight duty is paid in money in addition to the provision of meals, taxes will be imposed on a portion of the amount paid.

c. Other cases

In accordance with regulations, meals provided free of charge to ship crews, money for late-night meals provided to those working late at night, and other meals defined by regulations will not be taxed to a certain extent, either.

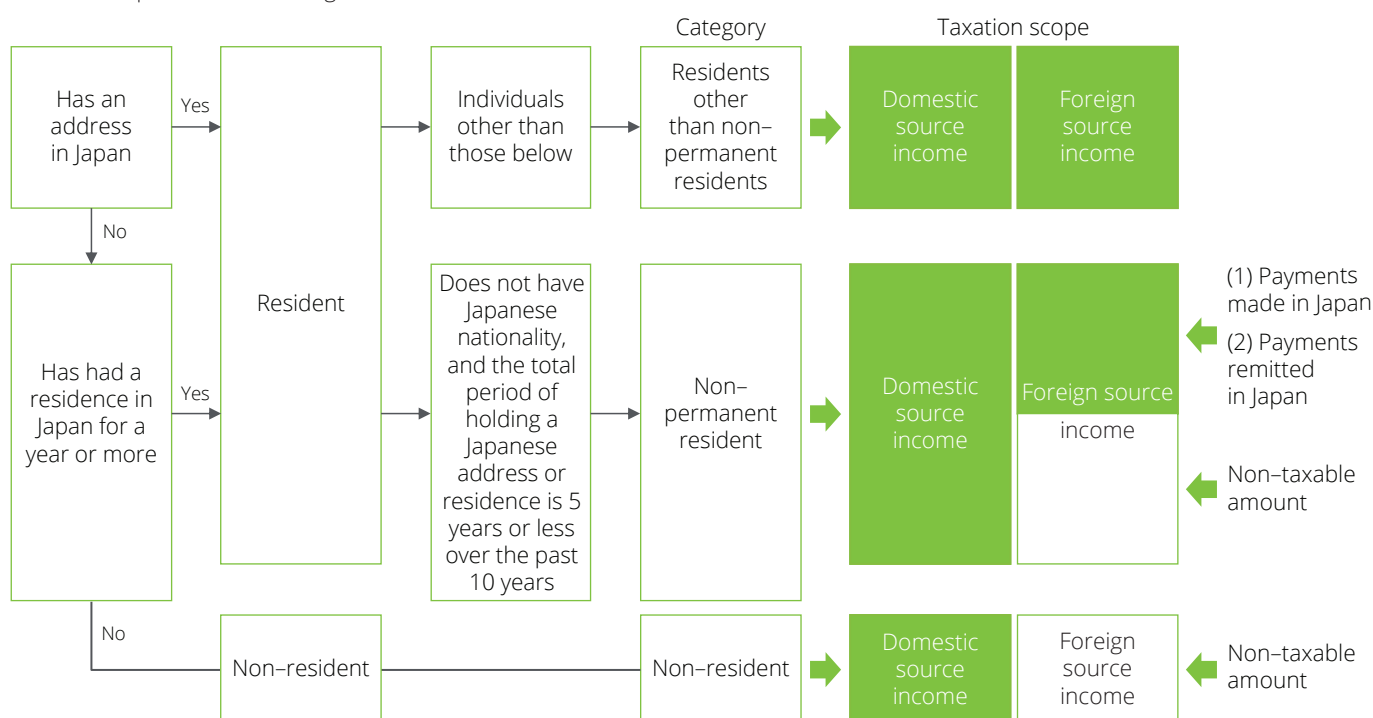
07. Withheld tax and year-end adjustment

If employment income is paid to an individual, the company is required to carry out the following procedures:

	Conducted by the company		Conducted by the employee
	Monthly	Yearly (calendar year)	
Japanese Residents	Withhold tax at source at the time of monthly salary payments <hr/> The amount withheld will vary depending on the type of employment, amount paid, number of dependents, etc. <hr/> The salary payer (company) pays the withheld tax by the 10th of the following month	At the end of the year (the end of December), calculate the tax amount for the year for each person, and adjust any excess or deficiency in the amounts that were withheld each month (year-end adjustment*)	If the employee receives income from sources other than the company, the employee must file an income tax return between February 16 and March 15 of the following year
Non-residents	Withhold 20% of income earned at a Japanese source at the time of monthly salary payments <hr/> The salary payer (company) pays the withheld tax by the 10th of the following month	Year-end adjustments are not conducted	In principle, tax is withheld at the source, but an income tax return is required in some cases

*Year-end adjustments are usually conducted in December, but if a resident becomes a non-resident due to being transferred overseas, the adjustment is made by the time the resident leaves Japan.

Taxation scope and determining residents and non-residents



08. Income tax return

Individuals must file an income tax return in the cases listed below.

Income tax returns are filed between February 16 and March 15 of the year following the year for which one's income must be declared.

6. If an individual has business income or real estate income

If the amount of tax calculated based on the total amount of various types of income earned for the year minus the basic deduction and other income deductions is greater than the amount that can be deducted for dividends

7. For individuals with employment income

Although individuals with employment income generally do not need to file income tax returns because their income tax is settled by the year-end adjustment, those who fall under the following cases are required to submit a final income tax return:

- a. Those whose total income from salaries and the like during the year exceeds 20 million JPY
- b. Those who receive salary payments from one place and for which the total amount of various income other than employment income or retirement income exceeds 200,000 JPY
- c. Those who receive salary payments from two or more places, provided that the sum of the employment income and various incomes other than employment or retirement income paid by secondary sources for which year-end adjustments are not made exceeds 200,000 JPY

8. For individuals with retirement income

Individuals who receive retirement allowances or the like do not need to file income tax returns if they submit a declaration concerning receipt of retirement income, because income tax is withheld and settled at source.

If a declaration concerning receipt of retirement income is not submitted, income tax is withheld at a tax rate of 20%. A tax return must be filed if the amount of tax due after making adjustments such as retirement income deductions comes out to be larger than the withheld 20%.

9. For individuals leaving Japan

If an individual who is required to file a tax return because they fall under conditions (1) to (3) above leaves Japan from January 1 of the following year to the deadline for filing tax returns, or leaves Japan in the middle of the year, the tax return must be filed by the time of departure.

(If the taxpayer has filed for a tax agent, the tax return will be filed the regular way by the tax agent.)

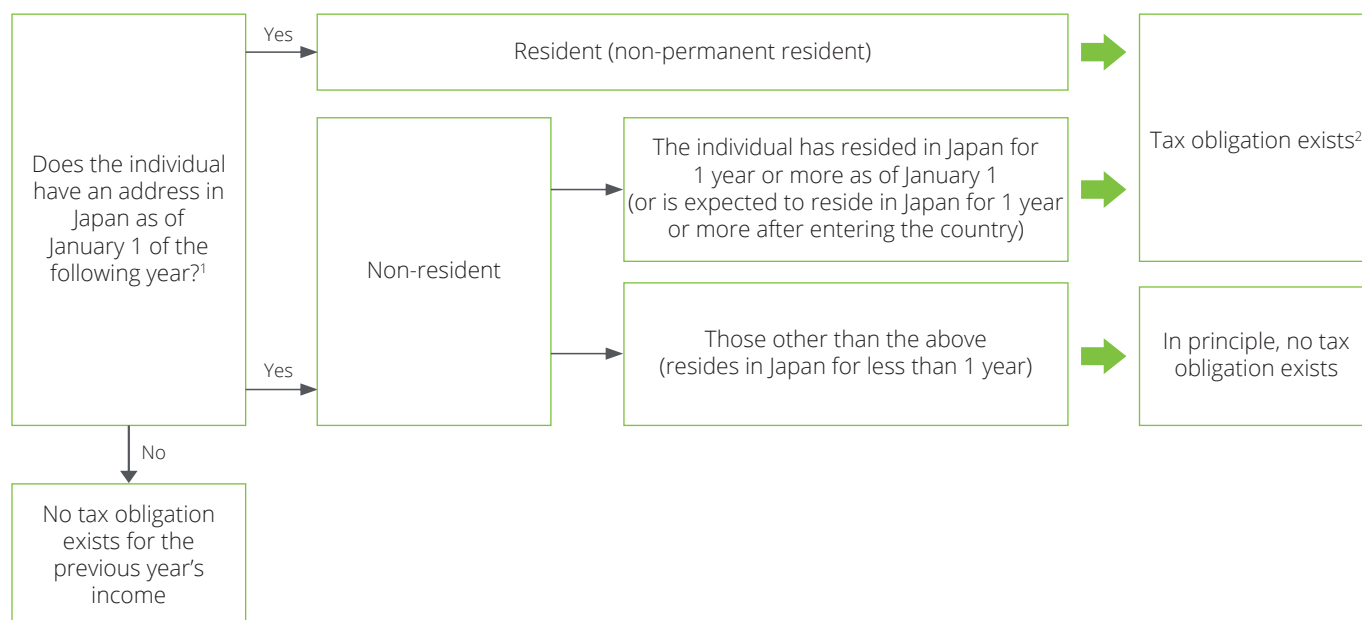


09. Personal resident tax

Resident tax is imposed on individuals as a form of local tax.

If employment income is paid to an individual, this tax is collected from their salary as a form of special collection and paid by their company.

10. Determining tax obligation



If leaving Japan, this is decided based on whether or not the individual has an address in Japan as of January 1, which is the taxable base date. Thus, if the individual leaves Japan before the end of the year (the end of December) and becomes a non-resident of Japan, they will not be liable to pay taxes.

If an individual is found to have a tax obligation as a result of the above determination, income from domestic sources will be the subject of taxation, and foreign sources of income before the individual became a resident of Japan will therefore not be taxable.

11. Tax rate

Taxes are either levied by way of (1) the per capita basis or (2) income basis as explained below. A fixed amount is taxed regardless of income under the per capita basis, while the amount to be taxed is calculated based on one's income (from the previous year) under the income basis.

- a. Per capita basis: around 4,000 JPY per year (varies depending on municipality population and its ordinances)
- b. Income basis: → taxed based on income from the previous year

The tax rate for the amount of taxable gross income, forestry income, and retirement income

Amount of taxable income	Tax rate
All	A flat rate of 10%

For tax rates on other income, see the section on separate taxation for income tax.

12. Collection method

a. Special collection

Salaried employees and others earning employment income: the salary payer (those responsible for special collection) collects the tax from the employees' salary and pays it to the municipality by the 10th of the following month. The municipality notifies the salary payer of the amount to be collected. The annual amount due is divided by 12 and collected over the 12-month period from June to May of the following year.

b. Regular collection

Individuals that do not receive employment income: The individuals themselves make tax payments in June, August, October, and January of the following year.

13. Other

a. First year of entry into Japan

Even if an individual enters Japan on January 1 and becomes a resident, if they earned no domestic source income in the previous business year and thus do not possess any taxable types of income, the individual has no tax obligation during the first year of entry into Japan.

If the individual continues to be a resident of Japan as of January 1 in the following year, the individual will be subject to resident tax based on the domestic source income for the previous year.

b. Settlement upon departure from Japan

At the time of departure from Japan, any unpaid tax on the previous year's domestic source income must be paid.



IV. Departure tax

In order to address avoidance on the taxation on capital gains due to transferring one's country of residence, this tax is imposed on unrealized capital gains at the time of moving out of Japan for certain financial asset owners.

01. Taxable persons

Persons to whom all of the following conditions apply are subject to taxation:

1. The value of taxable assets at time of moving out of Japan is 100 million JPY or more
2. The period of having an address or residence in Japan within 10 years prior to the date of moving out of Japan exceeds 5 years

Note: "Moving out of Japan" means that one will no longer have an address or residence in Japan.

02. Taxable assets

Securities, equity interests in capital from anonymous partnership agreements, unsettled derivatives, etc.

03. Taxation standards, tax rate, declaration and payment process

When levying departure tax, a transfer of assets will be determined to have taken place at the value defined by each of the categories defined below, and income from the transfer will be calculated.

Furthermore, unrealized capital gains pertaining to taxable assets, together with other income for the year that includes the date of moving out of Japan, are to be declared and paid by each of the dates stated below.

Treatment	Category	If the taxpayer has submitted a notice of tax agent appointment by the time the income tax return is filed	For situations other than those on the left
Amount		Value at time of moving out of Japan	Value 3 months prior to the planned date of moving out of Japan
Tax rate		In principle, a tax rate of 15% is applied Personal residence tax is not levied	
Filing deadline		The following year's income tax return deadline	Day of moving out of Japan
Payment deadline		In principle, the filing deadline However, if collateral is provided by the tax return deadline, certain tax deferment may be applied	Day of moving out of Japan

Note: A tax agent refers to a person who handles matters related to tax payment on behalf of a taxpayer who does not have an address or place of business in Japan.

04. Other points of note

1. Cancelling departure tax collection

It is possible to cancel departure tax collection if one returns to Japan within 5 years from the date of moving out of Japan while still owning assets subject to departure tax, or if one transfers such assets to only residents of Japan through a gift, inheritance, or bequest, by requesting collection within 4 months.

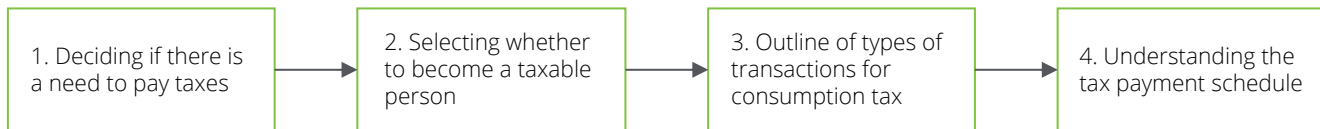
2. System for deferring tax payment

If certain requirements are met, one can receive a payment deferment on departure tax. The grace period is 5 to 10 years, during which time interest tax is charged.

V. Consumption tax

From October 1, 2019, the consumption tax standard rate increased from 8% to 10% and a reduced rate of 8% was introduced on most foods and beverages and certain subscription of newspapers. The consumption tax rate is generally recognized to be 10% or 8%, but to be exact, the national consumption tax rate is 7.8% and the local consumption tax rate is 2.2% for consumption standard tax rate of 10% and the national consumption tax rate is 6.24% and the local consumption tax rate is 1.76% for the reduced rate of 8%. This national consumption tax and local consumption tax are together referred to as “consumption tax”. The tax payment basis below is based on what is recognized to be the general consumption tax rate: 10% and 8%.

Consumption tax is calculated and paid according to the below process.



01. Deciding if there is a need to pay taxes

1. Taxpayer

In principle, businesses (corporations and sole proprietors) are obligated to pay consumption tax on supply of goods, leasing, and services for consideration by a taxable person acting as such in Japan.

2. Exemption for small businesses

Businesses below a certain size are exempted from tax obligation. The determining of this size is as follows:

Taxable sales exceeding 10 million JPY for the base period	Tax obligation exists
Or Taxable sales exceeding 10 million JPY for the tax period	
Taxable sales of 10 million JPY or less for the base period and Taxable sales of 10 million JPY or less for the tax period	Tax obligation does not exist

3. Base period

The base period refers to the business year 2 years before that business year (or the year 2 years before that year in the case of a sole proprietor).

Corporation	The business year 2 years before that business year	The previous business year	That business year
Sole proprietor	The year 2 years before that year	The previous year	That year
	↓		↓
	The base period		The taxation period

If a corporation’s corresponding business year is shorter than 1 year, the base period will be deemed as the sum of all business years that began during the period starting from the day before the date 2 years before the starting date of the subject business year, to the day 1 year after that day. If the base period is shorter than 1 year, the taxable sales of the period are calculated by dividing the actual sales of that business year by the number of months included in the business year, then multiplying it by 12.

4. Taxable sales for a base period

A base period refers to the following period:

- a. Sole proprietors: the period from January 1 to June 30 of the previous year
- b. Corporations with a business year preceding the subject business year (excluding ③): six months from the start of the business year preceding the subject business year
- c. Corporations for which the business year preceding the subject business year is 7 months or less, or other certain lengths: six months from the beginning of the business year 2 years before the subject business year (excluding the period included as the preparation period for the subject business year or other certain periods). (However, if the business year 2 years before the subject business year is 6 months or less, the base period is deemed as that year.)

Furthermore, the amount of salary and the like paid as stipulated in the Income Tax Act may be used in the place of taxable sales for a base period. The amount of salary paid refers to stipends, salaries, wages, annual allowances, bonuses, and other payments which possess these characteristics (the total of certain items to be stated on statements of salary payments) as defined in the Income Tax Act.

5. If a corporation is newly established

A base period does not exist for certain business years, such as the business year in which a corporation has been newly established or the following business year. Whether corporations without a base period are obliged to pay consumption tax is determined as follows:

Stated Capital and the like amounting to 10 million JPY or more	Tax obligation exists
or Taxable sales exceeding 10 million JPY for base periods	
Stated Capital and the like amounting to less than 10 million JPY	Tax obligation does not exist
and Taxable sales of 10 million JPY or less for base periods	

If a corporation does not have tax obligation based on the above criterion, but it is more than 50% directly or indirectly controlled by a large enterprise whose amount of consumption taxable sales is more than 500 million JPY in the period corresponding to the base period of the controlled enterprise, the corporation as a taxpayer is obligated to pay consumption tax on the transfer of taxable assets with filing a JCT return.

02. Selecting whether to become a taxable person

1. Selecting whether to become a taxable person

If a tax obligation does not exist, one can become a taxable person by choice.

Points to keep in mind when selecting to become a taxable person

- a. Once selected, this will be applied continuously for 2 years.
Once one has selected to become a taxable person, this cannot be changed until 2 years have elapsed.
- b. A notification must be submitted before the start of the business year
A notification of change in selection must be received by the tax office before the start of the business year.
- c. Once submitted, the notification is valid so long as no change is made
Once a notification is submitted, it is valid so long as no change is made.

If one is not obligated to pay taxes and does not select to become a taxable person, it is deemed as a tax-exempt business. For tax-exempt businesses, consumption tax received on sales is recognized as part of sales, and those paid on purchases are treated as expenses (deductible expenses). It is better to select to become a taxable person even if more consumption tax is paid than collected (such as when purchasing a large amount of fixed assets), because the amount paid as consumption-related tax will be deemed as part of the cost of acquiring the fixed assets and not be subjected to a return if the business is a tax-exempt business. However, one must note that once one selects to become a taxable person, this will be applied continuously for at least 2 years.

2. Selecting the calculation method for tax credit on purchases

Tax credit on purchases is calculated using the principle taxation method or simplified taxation method. Only taxable persons with taxable sales of 50 million JPY or less for the base period may select the simplified taxation method.

a. When selecting principle taxation

The itemized method or the proportional method

A taxable person adopting the principle taxation method can select between the itemized method or the proportional method if its taxable sales ratio is below 95% or its taxable sales during the taxable period exceed 50 million JPY.

This is an issue of how to recognize consumption tax for purchases corresponding to sales when sales include both taxable and non-taxable sales. The logic is that consumption tax on taxable sales can be offset against those on taxable purchases corresponding to taxable sales, but not against those on taxable purchases corresponding to non-taxable sales.

i. The itemized method

The itemized method is a method of recognizing relationships on consumption tax per transaction. In this case, consumption-related tax for common expenses which cannot be categorized individually is calculated proportionally using the taxable sales ratio.

ii. The proportional method

The proportional method is a method of prorating the amount of consumption tax for purchases corresponding to taxable sales based on the taxable sales ratio. The purpose of this method is to provide a simplified, clear-cut method for calculating consumption-related tax, so the tax burden may ultimately increase or decrease compared to the itemized method. Caution is required here, as once the proportional method is selected, this method will continuously apply for at least 2 years.

A company does not need to bear consumption-related tax on taxable purchases if it has a taxable sales ratio of 95% or more and its taxable sales during the taxable period are 50 million JPY or less.

b. Calculation method for taxable sales ratio

The taxable sales ratio is calculating as follows:

$$\text{Taxable sales ratio} = \frac{[\text{Taxable sales (A) + tax-exempt sales (B)}]^1}{\text{Total sales after tax for the taxable period:} \\ [\text{Taxable sales (A) + tax-exempt sales (B) + non-taxable sales (C)}]^{1,2}}$$

1. Total sales in the denominator and taxable sales in the numerator include tax-exempt sales such as export transactions, but exclude sales returns, sales allowances, sales rebates, and sales discounts.

2. Total sales in the denominator include non-taxable sales (e.g., interest) and exclude sales from transactions not subject to taxation (non-taxable transactions). When transferring securities, the amount equivalent to 5% of the consideration for the transfer is recognized as tax-exempt sales. When transferring monetary receivables (excluding those acquired as consideration for the transfer of assets and the like), the amount equivalent to 5% of the transfer consideration is included in the denominator.

A. The base period refers to the following period:

- a. Sole proprietors: the year 2 years before that year
- b. Corporations: the business year 2 years before that business year. However, if the corresponding business year is shorter than 1 year, the sum of all business years that began during the period starting from the day before the date 2 years before the starting date of the subjected business year, to the day 1 year after that day.

B. A tax period refers to the following period:

- a. Sole proprietors: the period from January 1 to June 30 of the previous year
- b. Corporations with a business year preceding the subject business year (excluding?): six months from the start of the business year preceding the subject business year

- c. Corporations for which the business year preceding the subject business year is 7 months or less, or other certain lengths: six months from the beginning of the business year 2 years before the subject business year (excluding the period included as the preparation period for the subject business year or other certain periods). (However, if the business year 2 years before the subject business year is 6 months or less, the tax period is deemed as that year.)

C. The amount of salary and the like paid as stipulated in the Income Tax Act may be used in the place of taxable sales for a tax period.

The amount of salary paid refers to stipends, salaries, wages, annual allowances, bonuses, and other payments which possess these characteristics (the total of certain items to be stated on statements of salary payment, etc.) as defined in the Income Tax Act.

D. In principle, one becomes a taxable person starting from the taxable period following the taxable period that includes the date of submission of the notice. If one selects to cancel one's selection in being a taxable person, a notification of change can only be submitted on or after the first day of the taxable period on which 2 years have elapsed since the first day of the taxable period in which the original selection to become a taxable person was applied.

E. In principle, one becomes a selector of the simplified taxation system starting from the taxable period following the taxable period that includes the date of submission of the notice. If one selects to cancel one's selection in being a selector of the simplified taxation system, a notification of change can only be submitted on or after the first day of the taxable period on which 2 years have elapsed since the first day of the taxable period in which the original selection to become a taxable person was applied.

- c. When selecting simplified taxation

When selecting simplified taxation, consumption tax on purchases and the like are calculated using the deemed purchase ratio instead of the actual amount paid. Caution is required here, as once simplified taxation is selected, this will continuously apply for at least 2 years. Businesses selecting the simplified taxation method must correctly apply the deemed purchase ratio designated for each business according to the nature of the company's business.

Deemed purchase ratio

Type of business	Deemed purchase ratio
Type 1 (Wholesale)	90%
Type 2 (Retail)	80%
Type 3 (Manufacturing, etc.)	70%
Type 4 (Restaurants)	60%
Type 5 (Finance and insurance, service, etc.)	50%
Type 6 (Real estate, etc.)	40%

03. Outline of types of transactions for consumption tax

The following types exist regarding transactions for consumption tax:

- Non-taxable transactions: Transactions that are originally subjected to consumption tax, but are exempt from taxation from the perspective of the government's policies (e.g., transfers or loans on land, housing rent, transfer of securities, interest on loans and the like, guarantee fees, insurance premiums)
- Untaxable transactions: Transactions that are not subject to consumption tax due to reasons such as the lack of consideration (e.g., salaries, bonuses, retirement payments, legal welfare expenses, donations, dividends, allowances, taxes and dues)
- Tax-exempt transactions: Transactions that are originally subjected to consumption tax, but are exempt from taxation due to the consumption taking place outside Japan or the like (e.g., export transactions, transfers or loans on foreign goods)
- Taxable transactions: Transactions other than the above

04. Understanding the tax payment schedule

The tax payment schedule follows the below standards, thus not left to the preference of the taxpayer.

1. Interim tax returns and consumption tax returns

Taxes are paid through interim tax returns and consumption tax returns.

The deadline for filing an interim tax return or a consumption tax return is within 2 months of the last day of each period.

The number of interim tax returns and the amount of tax to be paid are determined by the annual national consumption tax amount for the immediately preceding taxable period.

a. If exceeding 48 million JPY:

Interim returns every month, 1/12 of the annual tax of the immediately preceding taxable period

b. If exceeding 4 million JPY, but 48 million JPY or less:

Interim returns every 3 months, 1/4 of the annual tax of the immediately preceding taxable period

c. If exceeding 0.48 million JPY, but 4 million JPY or less:

Interim returns every 6 months, 1/2 of the annual tax of the immediately preceding taxable period

It is also possible to file interim returns based on a provisional settlement of accounts. Whether to submit an interim return based on a provisional settlement or the annual tax amount for the immediately preceding taxable period may be selected each time a return is filed.

2. Postponing filing deadline

The revision of consumption tax laws in 2020 introduced special provisions on the filing due date of consumption tax returns for corporations. In the case where a corporation subject to the special provisions concerning the extension of the filing due date for annual corporate tax returns has filed a notification of the extension of filing due date for consumption tax returns, the filing due date of consumption tax returns in a certain taxable period is extended by one month. Interest will be levied on the consumption tax due for the extended period. The revision is applicable to the taxable period which includes the last day of the fiscal year ended on or after March 31, 2021.

05. Others

1. The tax inclusion or tax exclusion method

In the accounting treatment of consumption tax, it is necessary to choose whether to handle them as tax-inclusive or tax-exclusive. The tax inclusion method is easier for its simplicity of calculation, but in terms of impact on corporate taxes and the like, it is considered to be more advantageous to calculate the maximum amount of deductible expenses using the amount excluding tax on entertainment expenses, for example.

06. Consumption tax levied in relation to the provision of cross-border roles

In the past, with regard to the provision of services via electric telecommunication lines such as the Internet, factors such as the location of the service provider was used as the basis for determining whether the transaction was domestic or foreign, as the location at which the service was provided or copyrights and the like were loaned was not clear. As a result, the provision of digital content and the like was subject to consumption tax when conducted by a domestic business, while it was deemed as a foreign transaction and not subject to consumption when conducted by a foreign business, creating a skew in competitive conditions between domestic and foreign businesses. In order to solve this issue, transactions conducted via electric telecommunication lines were positioned as the provision of services, and the criteria for determining whether a transaction is domestic or foreign was changed to the address or the like of the person being provided with the service.

From October 1, 2015, certain transactions conducted through electric telecommunication lines ("Digital Services") will be determined to be either domestic or foreign based on the address or the like of the recipient of the service provided.

1. Transactions which are subject to taxation
 - a. Distribution of e-books, music, images, software, apps, etc., via the Internet and the like
 - b. Services that let one use software and databases on the cloud
 - c. Distribution of online advertisement
 - d. Services that let one use online shopping and auction sites
 - e. Online English conversation lessons
 - f. Ongoing consultations by phone and email
2. Transactions which are not subject to taxation
 - a. Communication services such as phone, fax, and telegram
 - b. Software production, etc.
 - c. Management, operation, etc., of assets located outside Japan (including net banking)
 - d. Collection, analysis, etc., of information contracted to business operators located outside Japan
 - e. Transfers and loans of copyright

Furthermore, even if the receipt of deliverables or reports, or related instructions are made over email, the Internet, or other means in connection with these transactions, such actions are merely incidental to the transfer of other assets and are not deemed as Digital Services.

3. Taxation methods depending on whether the Digital Service is provided to a business or a consumer

Of Digital Services provided by foreign businesses, those that are normally only provided to businesses are categorized as Digital Services for Businesses, while all other services are considered to be Digital Services for Consumers.

	Digital Services for Businesses	Digital Services for Consumers
Determining from the nature of the service	Distribution of online advertisement Provision of online platforms for selling apps	Distribution of e-books, music, images, etc., provided to a wide range of consumers
Determining from transaction conditions, etc.	Digital Services where the content of the service is individually negotiated between transaction parties, a contract specific to the parties is concluded, and where it is clear in the contract that the entity receiving such services will use them as a business	Services for which the use is defined as for business use on the website of the service provider, but for which it is effectively impossible to restrict purchases by consumers

In terms of Digital Services for Businesses, the obligation to file and pay consumption tax on the transaction is shifted to the service recipient (reverse charge mechanism), and in terms of Digital Services for Consumers, the relevant foreign business is responsible for filing and payment.

In applying the reverse charge mechanism, charges made by foreign businesses will not include consumption tax, and the domestic business receiving the service will recognize both the provisional consumption tax received and the provisional consumption tax paid on the transaction. However, as a temporary measure, if the taxable sales ratio of the domestic business that received the service is 95% or more, the domestic business will be deemed to have never made the transaction, will not need to bear the declaration and payment obligation mandated under the reverse charge mechanism, and will not need to recognize the taxable purchase.

Although tax credits are not recognized for purchases of Digital Services for Consumers that domestic businesses make from foreign businesses, tax credits are recognized for purchases of Digital Services for Consumers made from foreign businesses registered with the Commissioner of the National Tax Agency under the Registered Foreign Business System, provided that documents such as invoices containing the registration number and other relevant information are preserved.

VI. Other taxes

01. Taxes levied on fixed assets

1. Fixed assets tax

a. Outline

Fixed assets tax is levied on ownership of land, houses, and depreciable assets. Depreciable assets are defined here as fixed assets such as structures, machinery, tools, apparatuses, and appliances owned for the purpose of running a business.

b. Taxpayer

Individuals and corporations that own fixed assets in Japan as of January 1 each year.

c. Method for calculating tax

Tax base amount (value of fixed asset) × 1.4% (the standard tax rate)

However, a special measure exists to reduce the tax base amount by half for the first 3 years regarding fixed assets tax on certain machinery and devices newly acquired by small and medium-sized enterprises during the period from the effective date of the Act on the Productivity Enhancement of Small and Medium-sized Enterprises (tentative name) to March 31, 2019.

d. Tax exemption limit

If the total taxable amount of each asset owned in the same municipality is less than the following amounts, fixed asset taxes will not be imposed on that asset:

Land: 300,000 JPY

Houses: 200,000 JPY

Depreciable assets: 1,500,000 JPY

e. Filing (depreciable assets taxes)

i. Person obliged to make the declaration

Individuals and corporations that own depreciable assets as of January 1

(Land and houses are not required to be declared)

ii. Documents to submit

A declaration of depreciable assets and a detailed statement by type

iii. Submission deadline

The last day of January for that year

iv. Where to submit

The municipality where the depreciable asset is located

f. Payment

Payments are made using the statement of payment sent by each municipality.

The deadlines are each year in April, July, December, and February of the following year, and the deadline is the last day of each of these months.

2. City planning tax

a. Outline

The city planning tax is a tax that is levied on the ownership of land and houses.

b. Taxpayer

Individuals and corporations that own land and houses located in areas designated for urbanization as of January 1 each year.

c. Method for calculating tax

Tax base amount (value of fixed asset) \times 0.3%

d. Payment method

Paid together with the fixed asset tax.

3. Real estate acquisition tax

a. Outline

The real estate acquisition tax is a tax levied on the acquisition of land and houses.

b. Taxpayer

Individuals and corporations that have acquired land or houses in Japan.

c. Method for calculating tax

Tax base amount (value of real estate) \times 4%

However, this becomes 3% for housing and residential land.

d. Tax exemption limit

Land: less than 100,000 JPY

Houses (new construction, additions, renovation): less than 230,000 JPY??

Houses (other): less than 120,000 JPY

e. Payment

Tax payment is made with the statement of payment sent by the prefecture, by the designated deadline.

02. Taxes levied on vehicles

1. Automobile tax, light automobile tax

a. Outline

Automobile taxes are levied on ownership of automobiles. Light vehicles and motorcycles are subject to the light automobile tax.

b. Taxpayer

Individuals and corporations that own a vehicle in Japan as of April 1 each year.

c. Payment

i. This tax is to be declared and paid when registering (submitting a notice for) a vehicle. The tax amount varies depending on factors such as total engine emission and timing of purchase.

ii. The tax is paid according to the statement of payment sent by the prefecture (or municipality if light automobile tax). The deadline for payment is the last day of May.

2. Motor vehicle tonnage tax

a. Outline

The motor vehicle tonnage tax is levied during vehicle inspections.

b. Taxpayer

Individuals and corporations that are granted a motor vehicle inspection certificate or receive a vehicle number designation, etc.

c. Payment

Payments are made during vehicle inspections or when submitting a notification.

d. Temporary relief

From May 1, 2021 to April 30, 2023, the vehicle tonnage tax will be reduced or exempted (100%, 75%, 50%, 25%) at the first new vehicle inspection for vehicles with excellent environmental performance.

In addition, vehicle tonnage tax will be exempted for the first continuous inspection conducted after the expiration of the validity period of the new vehicle inspection, except for the case where certain modifications have been made that affect the environment, in the case of the inspection vehicles with particularly excellent environmental performance, such as electric vehicles and plug-in hybrid vehicles, among the inspection vehicles exempted from tax at the initial new vehicle inspection.

03. Environmental performance levy (Automobile acquisition tax was abolished)

a. Outline

Environmental performance levy is taxed on the acquisition of vehicles. At the time of purchase, a 0-3% tax will be levied on the price of the vehicle and a 0-2% tax will be levied on the price of the light vehicle, depending on its fuel efficiency. A temporary reduction in tax rates by 1% is extended through the end of December 2021. Electric vehicles are tax-free.

b. Tax exemption limit

If the acquisition cost of a vehicle is less than JPY 500,000, environmental performance levy will not be imposed on that vehicle.

c. Taxpayer

Individuals and corporations that acquired a motor vehicle and applying for a new registration or name change of the vehicle.

d. Payment

Payments are made by attaching a revenue stamp to the environmental performance report.

04. Stamp tax

a. Taxpayer

Tax obligation for stamp tax is established when the taxable document is created, and the creator of the taxable document is obligated to pay stamp tax on that document.

b. Taxable documents

Stamp tax is imposed on taxable documents which are prepared for the purpose of proving matters that should be proved by 20 types of documents listed in the taxable item table, and that do not fall under non-taxable documents.

Specifically, documents such as the following are taxable documents:

- i. Contracts regarding the transfer of real estate
- ii. Contracts regarding the establishment or transfer of surface rights or land leasehold rights
- iii. Contracts regarding loans for consumption
- iv. Contracts regarding transportation
- v. Contracts regarding job contracts
- vi. Articles of incorporation
- vii. Contracts that form the basis of ongoing transactions
- viii. Contracts regarding the entrusting of money or securities

- ix. Contracts regarding transfer of receivables or acceptance of debt
- x. Receipts of money or securities related to sales proceeds
- c. Payment method (principle)

In principle, payment of the stamp tax is made by affixing revenue stamps to the taxable document. In this case, the taxable document and a seal or signature of the taxpayer, their agent, employee, or other worker must be affixed to overlap with both the design of the revenue stamp and the page of the taxable document.

05. Office tax

a. Outline

The office tax is levied on business conducted at offices and places of business located in designated cities or similar areas. It was established for the purpose of covering the expenses required for the development and improvement of urban environments in metropolitan areas. The tax is comprised of two tax bases: using the office floor space as the tax basis ("asset basis") and using the total salary paid to employees as the tax basis ("employee basis").

b. Taxpayers

An individual or corporation that conducts business at an office or place of business located in a designated city or a similar area

c. Method for calculating tax

Asset basis

600 JPY per 1 m² of floor space making up the place of business

Employee basis

0.25% of total employee salary

d. Tax exemption limit

i. Asset basis

When the total floor space of a place of business located in a designated city or a similar area is 1,000 m² or less

ii. Employee basis

When the number of employees working in a place of business located in a designated city or a similar area is 100 people or less

However, even if one is below the tax exemption limit and is not obligated to pay taxes, a declaration showing that one is below that limit must be submitted if one's floor space or number of employees exceeds the standards set by each designated city.

e. Filing and payment

Individuals: By March 15 of the following year

Corporations: Within 2 months after the end of the business year

Accounting

I. Outline of accounting

01. Outline

The structure of accounting standards in Japan comprises the Business Accounting Principles set forth by the Business Accounting Council of the Ministry of the Treasury (now known as the Ministry of Finance) in 1949, the accounting standards issued by the Council thereafter, and the accounting standards released by the Accounting Standards Board of Japan (ASBJ) since 2001. Principle laws related to business accounting are the Financial Instruments and Exchange Act (hereinafter "FIEA"), which applies to listed companies; the Companies Act, which applies to all corporations; and the Corporation Tax Act, which applies to the calculation of taxable income. The main purpose of the FIEA is investor protection, while the main purpose of the Companies Act is shareholder and creditor protection. Listed companies are required to prepare financial statements and consolidated financial statements in accordance with the Companies Act, as well as annual securities reports and quarterly reports in accordance with the FIEA.

Japan has no laws that establish accounting practice norms like an accounting law. However, there is the Regulation on Corporate Accounting (Ordinance of the Ministry of Justice), which stipulates matters related to corporate accounting

02. Regulations of the Companies Act and Financial Instruments and Exchange Act

1. Regulations of the Companies Act

a. Financial statements

All companies must prepare financial statements for each fiscal year (Companies Act, Article 435, Paragraph 2). Financial statements are prepared in accordance with the Regulation on Corporate Accounting.

b. Auditing of financial statements, etc., by accounting auditors

Companies with 500 million JPY or more in capital, or 20 billion JPY or more in liabilities in the most recent fiscal year (companies for which this applies are defined as "large companies"; Companies Act, Article 2, Paragraph 2) must appoint a certified public accountant or audit firm as its accounting auditor to audit its financial statements (Companies Act, Article 328, Articles 337 and 436).

In other words, unless a company is classified as a large company, audits by certified public accountants or audit firms are not mandatory. Financial statements generally must be approved at shareholders' meetings (Companies Act, Article 438); however, for companies with accounting auditors, financial statements are to instead be reported at shareholders' meetings if the contents of the accounting audit report by the accounting auditor meet certain requirements, such as the report being that of an unqualified opinion (Companies Act, Article 439).

c. Consolidated financial statements

Large companies that file securities reports are required to prepare consolidated financial statements (Companies Act, Article 444, Paragraph 3). If a company has accounting auditors, it may prepare consolidated financial statements even if it does not file securities reports (same article, Paragraph 1).

d. Auditing of consolidated financial statements by accounting auditors

Consolidated financial statements must be audited by accounting auditors (Companies Act, Article 444, Paragraph 4).

Consolidated financial statements audited by accounting auditors shall be reported at shareholders' meetings (Companies Act, Article 444, Paragraph 7).

2. Regulations of FIEA

a. Annual securities reports and confirmation letters

Listed companies must prepare annual securities reports and submit them to the Financial Services Agency (hereinafter "FSA") (each local financial bureau) within 3 months after the end of the relevant fiscal year (FIEA, Article 24). Moreover, a confirmation letter stating that the information contained in the annual securities report has been confirmed to be appropriate in accordance with the FIEA and related regulations ("Confirmation Letter") must be submitted to the FSA in tandem. (FIEA, Article 24-4-2).

b. Internal Control Reports

Listed companies are required to submit a report ("Internal Control Report") to FSA (each local financial bureau) for each fiscal year, which evaluates, as specified in the Cabinet Office Ordinance, the systems stipulated as necessary in the Cabinet Office Ordinance to ensure the appropriateness of financial statements, consolidated financial statements, and other information pertaining to the company as well as the corporate group to which the company belongs (FIEA, Article 24-4-4).

c. Quarterly securities reports and Confirmation Letters

Listed companies are required to prepare quarterly securities reports every 3 months and submit them to the FSA (each local financial bureau) within 45 days after the end of the quarter (FIEA, Article 24-4-7). Furthermore, they are also required to submit Confirmation Letters in tandem (FIEA, Article 24-4-8).

d. Audits conducted by certified public accountants and audit firms

Financial statements and consolidated financial statements included in annual securities reports and quarterly securities reports as well as internal control reports included in annual securities reports are subject to FIEA audits or quarterly reviews and thus require a position statement by a certified public accountant or audit firm (FIEA, Article 193-2).

03. Timely disclosure regulations in each market

It is crucial for listed companies to be aware of and to carry out the timely disclosure of information (company information) that influences the investment decisions made by investors.

Company information that is required to be disclosed by the Tokyo Stock Exchange includes information related to the listed company and information related to its subsidiaries, and for each, information related to company decisions, occurrence of material fact, and financial results must be disclosed. Regulations are nearly identical across other markets in Japan. Due to the fact that a wide range of matters are subject to disclosure, some of which also apply to subsidiaries, and that there are certain criteria pertaining to the necessity of disclosure, information that is designated to be included in the disclosure, and documents to be attached, careful attention is necessary when following these rules. Disclosure is carried out through written means or over the internet (Securities Listing Regulations).

04. Structure of financial statements

1. Financial statements and consolidated financial statements required by the Companies Act

a. Financial statements consist of the following (Companies Act, Article 435, Paragraph 2; Regulation on Corporate Accounting, Article 59):

- i. Balance sheets
- ii. Profit and loss statements
- iii. Statements of changes in net assets
- iv. Tables of explanatory notes on unconsolidated financial statements
- v. Annexed detailed statements of these documents are also prepared in tandem.

- b. Consolidated financial statements consist of the following (Regulation on Corporate Accounting, Article 61):
 - i. Consolidated balance sheets
 - ii. Consolidated profit and loss statements
 - iii. Consolidated statements of changes in net assets
 - iv. Tables of explanatory notes on consolidated financial statements

As stated above, disclosure under the framework of the Companies Act differs significantly from International Financial Reporting Standards (hereinafter "IFRS"), for example, while the former (i) does not require statements of cash flows to be prepared and (ii) does not necessarily require the preparation of consolidated financial statements even if a company owns subsidiaries, the latter requires the preparation of both even for non-listed companies.

- 2. Financial statements and consolidated financial statements required by FIEA
 - a. Unconsolidated financial statements described in annual securities reports consist of the following (FIEA, Article 193; Regulation on Terminology, Forms, and Preparation Methods of Financial Statements, Article 1):
 - i. Balance sheets
 - ii. Profit and loss statements
 - iii. Statements of changes in net assets
 - iv. Statement of cash flows
 - v. Annexed detailed statements
 - b. Consolidated financial statements must be included in annual securities reports if the company constitutes a corporate group consisting of the company or other companies in which the company holds a majority of the voting rights. These consolidated financial statements consist of the following (FIEA, Article 193; Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, Article 1):
 - i. Consolidated balance sheets
 - ii. Consolidated profit and loss statements
 - iii. Consolidated statements of comprehensive income
 - iv. Consolidated statements of changes in net assets
 - v. Consolidated statements of cash flows
 - vi. Consolidated annexed detailed statements

05. Accounting standards

Due to their background, Japanese accounting standards are not organized into a single system. Thus, as touched upon in "1 Outline", it is necessary to take into account, for example, provisions of the Business Accounting Principles, various accounting standards, application guidelines which provide detailed guidelines for the application of accounting standards, Q&As, and practical response reports when considering accounting treatment.

Japanese corporations usually apply so-called Japanese accounting standards, but some listed companies apply IFRS or US GAAP to prepare and disclose consolidated financial statements.

A comparison between so-called Japanese accounting standards and IFRSs for each account title is roughly as follows.

1. Inventory

The Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9) is the accounting standard applied to inventory, while cost accounting is implemented according to the Cost Accounting Standards.

	Japanese accounting standards	International Financial Reporting Standards
Valuation method	First-in, first-out method (FIFO), average cost method, specific identification method, or retail method (the last-in, first-out [LIFO] method is prohibited).	In principle, FIFO, average cost method, or specific identification method (the LIFO method is prohibited).
Valuation standards	Lower of cost and net realizable value basis (a method in which the book value is devaluated based on a decline in profitability).	Lower of cost and net realizable value basis (a method in which the book value is devaluated based on a decline in profitability).
Incidental expenses for purchasing	Regardless of industry, transportation and various other accounts payable at the time of purchase are treated as the inventory acquisition cost.	Regardless of industry, transportation and various other accounts payable at the time of purchase are treated as the inventory acquisition cost.



2. Securities

The “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10) is the accounting standard applied to financial instruments which include securities. Financial instruments is a complex area, and considerable caution is required as many regulations have been released, including practical guidelines, application guidelines, and Q&As.

	Japanese accounting standards	International Financial Reporting Standards
Securities classifications	Securities are classified as securities held for trading, held-to-maturity debentures, other securities, shares of subsidiaries, or shares of affiliate companies.	An entity shall classify financial assets on the basis of both: (a) the entity's business model for managing the financial assets; and (b) the contractual cash flow characteristics of the financial asset.
Subsequent measurement of securities	<p>Securities held for trading</p> <p>Valuated at market value, with valuation differences recognized in current period profit and loss.</p> <p>Held-to-maturity debentures</p> <p>Amortized cost method.</p> <p>Other securities</p> <p>With the exception of securities whose market value is extremely difficult to determine, these are valuated at their market values and accounted for by one of the following methods: (1) recording the total amount of valuation differences in net assets; or (2) recording valuation differences related to stocks whose market value exceeds their acquisition cost as part of net assets, and recording valuation differences related to stocks whose market value falls below their acquisition cost as losses for the current period.</p> <p>Net gain on trading recorded on the income statement from the sale of securities categorized as “other securities” includes the amount of valuation differences recognized in net assets from prior periods.</p>	<p>On the basis of both (a) the entity's business model for managing the financial assets and (b) the contractual cash flow characteristics of the financial asset, financial assets are classified as follows.</p> <p>(1) Financial assets measured at amortized cost (AC)</p> <p>(2) Financial assets measured at fair value through other comprehensive income (FVTOCI)</p> <p>(3) Financial assets measured at fair value through profit or loss (FVTPL)</p>
Subsidiary equity	The cost method is applied for unconsolidated financial statements. For consolidated financial statements, this is eliminated against subsidiary capital.	The cost method is applied for unconsolidated financial statements. For consolidated financial statements, this is eliminated against subsidiary capital.
Affiliated company equity	The cost method is applied for unconsolidated financial statements, while the equity method is applied for consolidated financial statements.	The equity method is used for both unconsolidated and consolidated financial statements.
Jointly controlled company equity	While no corresponding accounting standard exists, in practice, the cost method is applied for unconsolidated financial statements, while the equity method is applied for consolidated financial statements.	The equity method is used for both unconsolidated and consolidated financial statements.

3. Tangible fixed assets

There is no accounting standard that comprehensively defines tangible fixed assets, and accounting treatment is quite often in accordance with the provisions of the Corporation Tax Act. Additionally, for individual topics related to tangible fixed assets, there exists the “Accounting Standard for Impairment of Fixed Assets” (Business Accounting Council) and the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18) to name a few. Apart from accounting standards, many application guidelines, practical response reports and the like have been published.

	Japanese accounting standards	International Financial Reporting Standards
Definition	Things that are not directly intended to be sold and are not liquidated for one or more year, or are not part of the normal operating cycle.	Property, plant and equipment are tangible items that: are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one period.
Depreciation of tangible fixed assets	The declining-balance method and straight-line method are the most common depreciation methods used, and useful life and estimated residual value are often accounted for in accordance with the Corporation Tax Act. Useful life is defined in detail in the relevant provisions of the Corporation Tax Act.	The depreciation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity. Depreciation methods are as follows: Straight-line method Diminishing balance method, such as Fixed percentage method, Sum-of-the -year’s digits method, and Sum-of-the-units method Units production method/Physical usage method
Investment real estate	The only regulation that exists is the regulations on disclosures specified in “Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ Statement No. 20).	Apply the cost model or the fair value model for assets that are categorized as investment real estate.
Asset retirement obligations	Asset retirement obligations must be recognized.	Asset retirement obligations must be recognized.
Borrowing costs	Recognizing borrowing costs related to real estate acquisition that meet certain requirements as an asset is not mandatory, but rather left to one’s preference.	Recognizing borrowing costs that meet certain requirements as an asset is mandatory. Fixed assets are not the only things that may be recognized as assets.

4. Intangible assets

There is no accounting standard that comprehensively defines intangible assets. As for individual topics related to intangible assets, there exists the "Accounting Standard for Research and Development Costs" (Business Accounting Council) which defines handling of research and development costs, software, etc.

	Japanese accounting standards	International Financial Reporting Standards
Amortization of intangible assets	In principle, intangible assets are amortized on a regular basis.	The depreciable amount of intangible assets with a finite useful life shall be amortized on a regular basis over its useful life. Intangible assets with an indefinite useful life shall not be amortized, but be tested for impairment each period.
Research and development costs	Research and development costs are expensed as they are incurred.	Development costs that meet certain requirements are recognized as assets.
Accounting for impairment	The reversal of any and all impairment losses is prohibited. When recognizing impairment, there is an initial test based on the undiscounted future cash flows for each asset group.	Impairment losses shall be reversed if there has been changes in the estimates used to determine the asset's recoverable amount. An initial test based on undiscounted future cash flows for each asset group is not required when recognizing impairment.

5. Goodwill

The accounting treatment of goodwill is defined in the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21).

	Japanese accounting standards	International Financial Reporting Standards
Goodwill	Regularly amortized by the straight-line method or other reasonable methods within 20 years over the period of its effect.	Amortization is prohibited, and companies are required to conduct an impairment test every period to determine whether impairment exists.

6. Provisions for paid leave

	Japanese accounting standards	International Financial Reporting Standards
Provisions for paid leave	No accounting standards exist regarding provisions for paid leave.	Accounting standards exist regarding provisions for paid leave.

7. Provisions for retirement benefits

The “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26) defines rules such as the calculation of retirement benefit obligations using actuarial calculations and the presentation of retirement benefit obligations as offsetting pension assets.

	Japanese accounting standards	International Financial Reporting Standards
Expense recognition	<p>Current period service costs, interest cost on retirement benefit obligations, amortization of prior service costs, amortization of actuarial differences, and the expected return on pension assets are recorded in current period profit and loss.</p> <p>Moreover, prior service costs and actuarial differences incurred for the current period in consolidated financial statements are recorded as Other Comprehensive Income (OCI), and reclassification adjustments (recycling) of OCI is carried out for the portion expensed in the current period. However, because the concept of comprehensive income is not introduced in unconsolidated financial statements, the unrecognized portion of prior service costs and actuarial differences are accounted for off the books.</p>	<p>Current period service costs, interest costs on net retirement benefit obligations and pension assets, and prior service costs are recorded in the current period profit and loss. However, actuarial differences are recorded in OCI and are not recycled to current period profit and loss.</p>

8. Leases

The “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13) define the accounting treatment of finance lease transactions and operating lease transactions.

	Japanese accounting standards	International Financial Reporting Standards
Finance lease transactions	On-balance sheet treatment for both lessee and lessor (assets and liabilities associated with the lease are accounted for).	On-balance sheet treatment for both lessee and lessor (assets and liabilities associated with the lease are accounted for).
Operating lease transactions	<p>Off-balance sheet treatment for both lessee and lessor</p> <p>(no assets or liabilities associated with the lease are accounted for, with only expenses and revenue recognized).</p>	<p>On-balance sheet treatment for lessees (assets and liabilities associated to the lease are accounted for).</p> <p>Off-balance sheet treatment for lessors (no assets or liabilities associated with the lease are accounted for, with only expenses and revenue recognized).</p>

9. Revenue

As for the accounting standard that comprehensively defines revenue, ASBJ Statement No. 29, Accounting Standard for Revenue Recognition, which incorporates the thinking of IFRS 15, was published on March 30, 2018.

	Japanese accounting standards	International Financial Reporting Standards
Revenue Recognition	Companies recognize revenue when, or as, they satisfy their performance obligation by transferring promised goods or services to customers.	Companies recognize revenue when, or as, they satisfy their performance obligation by transferring promised goods or services to customers.

10. Government subsidies

Although no accounting standards exist that comprehensively define government subsidies, their accounting treatment is handled by advanced depreciation as permitted by the Corporation Tax Act.

	Japanese accounting standards	International Financial Reporting Standards
Government subsidies	National subsidies related to assets are either accounted for by way of advanced depreciation (direct reduction) or temporarily recognized as Extraordinary Income at the time of receipt and set aside as Reserve for Tax Purpose Reduction Entry, which is then reversed based on depreciation.	Companies recognize revenue when, or as, they satisfy their performance obligation by transferring promised goods or services to customers.

c. Comprehensive income

In accordance with the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25), listed companies are required to prepare consolidated statements of comprehensive income in their annual securities reports.

	Japanese accounting standards	International Financial Reporting Standards
Comprehensive income	Consolidated statements of comprehensive income are prepared in consolidated financial statements. On the other hand, the calculation of comprehensive income has not been introduced in unconsolidated financial statements.	The calculation of comprehensive income is included in income statements for both consolidated and unconsolidated financial statements.

Listing on an exchange

01. Overview of the initial listing and disclosure systems

(Source: “New Listing Guidebook for Foreign Companies”, “Overview of the Market Structure Review and Outline of the New Market Segments”, Tokyo Stock Exchange)

01. Overview

In Japan, stock exchanges have been given the authority to approve listings under the law, and Japan Exchange Group (JPX) Regulation has been commissioned by the Tokyo Stock Exchange (TSE) to conduct listing examinations.

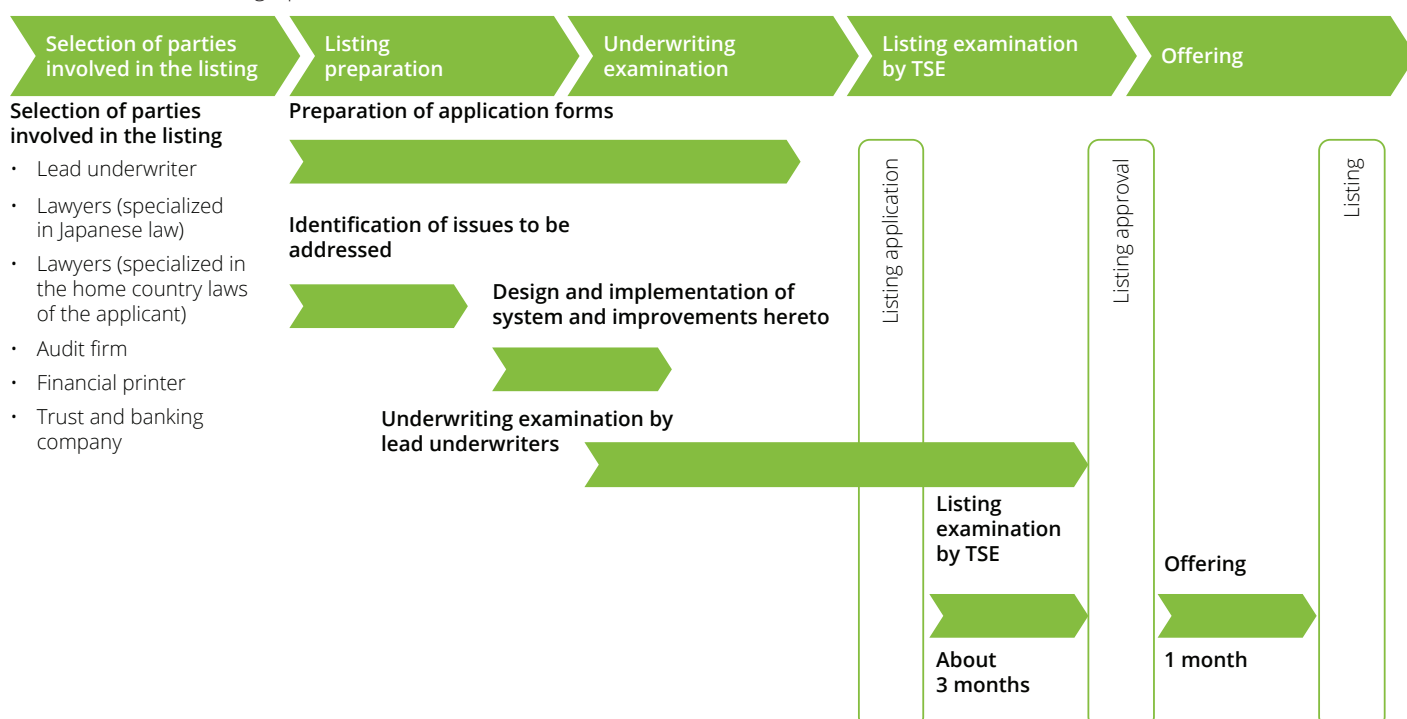
In addition, as a preliminary step before actual examination, it is possible to have a prior consultation with JPX through securities companies with underwriter qualifications, allowing applicants to identify and address potential roadblocks in a listing examination before the listing application is filed and making it possible to prepare for a smooth examination while maintaining sufficient communication with TSE. When examining a listing application from a foreign company, TSE closely considers the legal system and conventions in practice in the applicant’s home country.

1. Listing schedule

When a foreign company files an application for listing on TSE, the listing examination will require about 3 months. After listing approval by TSE, about 1 month will be required for public offering procedures (the IPO). An applicant therefore needs 4 months, as a rule, from the listing application date to the first day of listing.

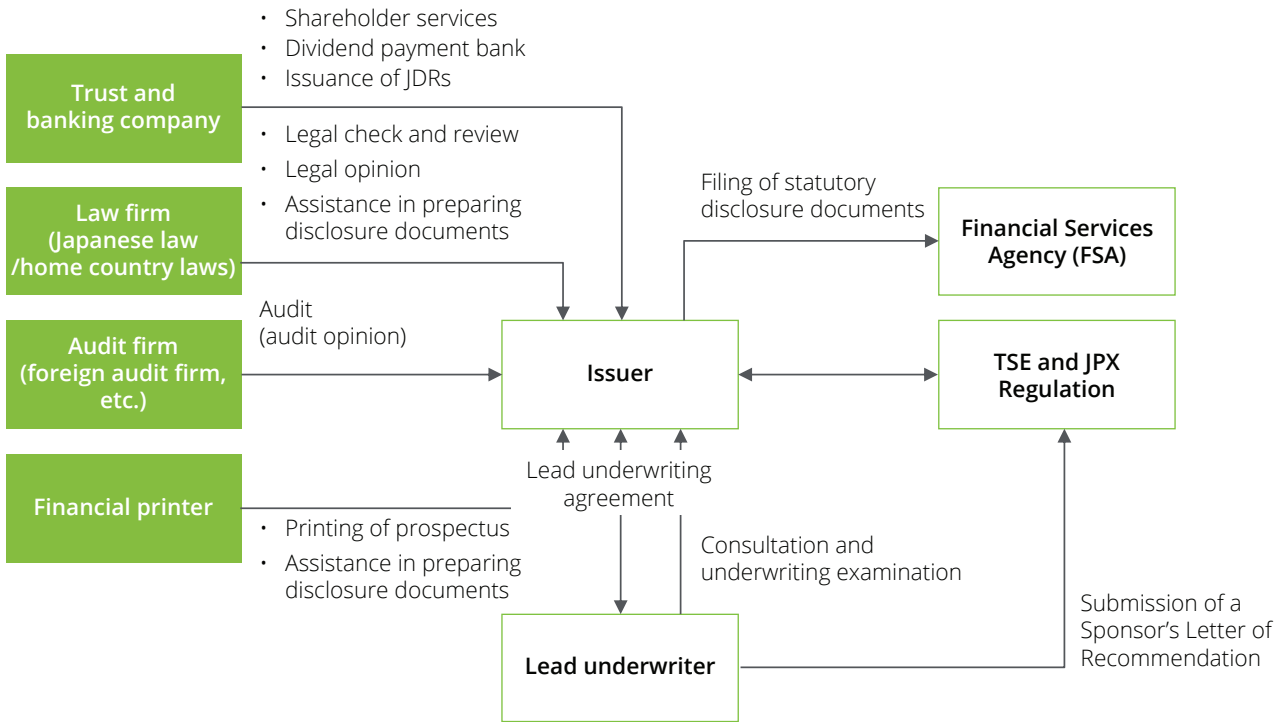
The period for preparing the listing application and period for the underwriting examination may vary, depending on the internal systems and underwriting policies of the underwriting securities firm.

Listing schedule Consolidated financial statements must be audited by accounting auditors (Companies Act, Article 444, Paragraph 4). Consolidated financial statements audited by accounting auditors shall be reported at shareholders’ meetings (Companies Act, Article 444, Paragraph 7).



2. Roles of each party involved in an IPO

The following are the key parties in Japan and the home country who support the listing of a foreign company on TSE. These participants work together closely during the preliminary listing process to support preparations for a listing.



Lead underwriter (TSE trading participant)	A lead underwriter is comprehensively involved in the procedures and preparations for listing overall. It provides underwriting business by entering into a lead underwriting agreement with an issuer and provides advice and consultation on the listing and listing schedule. At the time of listing, the lead underwriter submits a Sponsor's Letter of Recommendation to TSE.
Law firm	A law firm checks and reviews listing-related matters from a legal perspective and prepares a legal opinion. It also helps the applicant prepare disclosure documents. After listing, it discloses corporate information as a legal representative of the listed foreign company.
Audit firm (foreign audit firm, etc.)	An audit firm provides advice on the design and implementation of the accounting organization and financial statements, and also audits the financial statements (expression of an audit opinion).
TSE	TSE explains its listing system to companies, IPO-related parties, and so on, and provides preliminary or prior consultation on the listing.
Trust and banking company	A trust and banking company acts as a shareholder services agent for Japanese shareholders after the listing and may act as a dividend payment bank to provide services related to dividend payment.

3. Lead underwriters

Underwriters are securities companies which support listing applicant companies, and of those underwriters, the security company that plays a primary role in providing support to the listing of the applicant company is called the lead underwriter (administrative underwriter). The lead underwriter submits a Sponsor's Letter of Recommendation to the exchange for the listing of the applicant company.

4. Rules and regulations on the disclosure system on the secondary market

Information used for decisions on the value of securities must be accurate, fair, and disclosed in a timely manner to ensure that investors can invest in securities based on reasonable judgment. For this purpose, the Financial Instruments and Exchange Act ("FIEA") prescribes requirements for information disclosure in the corporate profiles of issuers ("statutory disclosure") and TSE prescribes requirements on timely disclosure by listed companies in the regulations ("timely disclosure").

a. Statutory disclosure

Companies listed on TSE are required to electronically submit securities reports, quarterly reports, and similar reports that outline their financial position as well as business lines and performance to the Japanese prime minister (in practice, to the local Finance Bureau.) The submitted reports are then entered into Electronic Disclosure for Investors' NETWORK (EDINET) for public inspection and made available to investors via the Internet.

b. Timely disclosure

In addition to statutory disclosures, companies listed on TSE are obliged to promptly disclose decisions and events that may greatly affect investor decisions, in accordance with TSE's listing regulations and other relevant rules. Such information will then be released to the media and investors via the Internet and TSE's online disclosure system, the Timely Disclosure Network (TDnet).

5. Commitment to IR

In addition to statutory and timely disclosures, TSE encourages all listed companies to engage in IR activities that enable them to communicate with investors about their corporate status. The regulations require, for example, that Mothers-listed companies hold meetings with investors to explain their company profiles and affairs twice a year. Many TSE-listed companies have implemented individual IR activities that go considerably further.

Active IR activities are a secure way to enhance corporate brand value and boost the benefit from listing on TSE.

02. Listing examination by TSE (primary listing)

There are two types of requirements by which the company will be examined to list its stock encompassed by the so-called listing requirements: "formal requirements" and "eligibility requirements". Companies which meet the formal requirements are subjected to TSE's examination, and the examination is conducted based on the eligibility requirements. In applying the rules and regulations of the exchange to a foreign country or a foreign corporation where the foreign country or the foreign corporation is an issuer or the like of the listed security, the exchange shall take into account factors such as legal systems, practices and customs of the foreign country or the home country of the foreign corporation.



1. Main markets (TSE 1st Section and 2nd Section) (primary listing)

a. Formal requirements

Item	TSE 1st Section	TSE 2nd Section
1. Number of shareholders	2,200 shareholders or more	800 shareholders or more
2. Number of tradeable shares	a. 20,000 units or more	a. 4,000 units or more
a. The number of tradeable shares	b. 1 billion JPY or more	b. 1 billion JPY or more
b. The market capitalization of the tradeable shares	c. 35% or more	c. 30% or more
c. The number of tradable shares as a percentage of the total number of issued shares outstanding		
3. Market capitalization	25 billion JPY or more	2 billion JPY or more
4. Number of consecutive years of conducting business	A board of directors (or an equivalent organization in the case of a foreign company) was set up by at least 3 years before the final day of the business year immediately preceding the business year containing the initial listing application date, and business activities have since been carried out in a continuous manner	
5. Amount of net assets	The amount of consolidated net assets: 1 billion JPY or more	
6. Amount of profits or market capitalization	Either of the following conditions must be satisfied:	
	a. The total amount of profits in the last 2 years: 500 million JPY or more	
	b. Sales for the most recent year are at least 10 billion JPY and market capitalization is 50 billion JPY or more	
7. False statement or adverse opinion, etc.	All of the following conditions must be satisfied:	
	a. No false statement is made in the securities reports and the like for each business year or each consolidated accounting year which ended in the last 2 years;	
	b. The audit report attached to financial statements for each business year or each consolidated accounting year which ended in the last 2 years (excluding the most recent year) contains an "unqualified opinion" or a "qualified opinion with exceptions" of certified public accountants	
	c. The audit report attached to financial statements for the business year and consolidated accounting year which ended in the last year contain, as a general rule, an "unqualified opinion" of certified public accountants	

Item	TSE 1st Section	TSE 2nd Section
8. Expected implementation of merger, etc.	The merger or the like shall not fall under either of the following:	
	<ul style="list-style-type: none"> a. Where a merger, demerger, an act of making the other company a subsidiary or making a subsidiary a non-subsiary, or a transfer of a business to or from the other entity is scheduled to be carried out on or after the initial listing application day and within 2 years from the end of the most recent business year before such day, and, in addition, where TSE deems that the initial listing applicant will cease to be a substantial surviving company by the act; provided, however, that the same shall not apply where the enforcement rules so specify b. Where a merger in which the initial listing applicant will become a dissolution company, or a stock swap or stock transfer whereby the applicant will become a wholly owned subsidiary of another company is expected to be carried out within 2 years from the end of the business year immediately prior to the business year containing the initial listing application day (except cases where such acts are scheduled to be carried out before the listing day) 	
9. Handling by a book-entry transfer institution	Either of the following conditions must be satisfied:	
	<ul style="list-style-type: none"> a. Said issue shall be subject to the custody and book-entry transfer operation for foreign stocks, etc., or the book-entry transfer operation of the designated book-entry transfer institution b. Said issue is expected to become so by the time of listing 	
10. Restriction on transfer of stocks, etc.	Either of the following conditions must be satisfied:	
	<ul style="list-style-type: none"> a. There is no restriction on transfer of a foreign stock, etc. pertaining to the initial listing application b. It is expected that there will be no restriction by the time of listing; provided, however, that the same shall not apply to cases where imposing a restriction on transfer of a foreign stock, etc., is deemed necessary to receive application of provisions of laws in its home country or a case equivalent to this and, in addition, where its details are deemed not to hinder trading in the TSE market 	

b. Eligibility requirements

#	Examination item	Examination perspective
1	Corporate continuity and profitability	<ul style="list-style-type: none"> 1. The balance of profits and losses, as well as income and expenditure in the consolidated financial statements of the initial listing applicant has not deteriorated 2. Management activities of the corporate group of the initial listing applicant meet both of the following conditions: <ul style="list-style-type: none"> a. There is no material obstacle to the execution of management activities of the corporate group b. The structure of the corporate group does not seriously hinder the continuous execution of business activities 3. Concerning the matters which are the premises of the main business activities of the corporate group of the initial listing applicant, there is no factor which hinders their continuity 4. There is no factor which seriously hinders the management and administration of the corporate group of the initial listing applicant

	<ol style="list-style-type: none"> 1. The corporate group of the initial listing applicant is recognized not to give or enjoy profit wrongfully through an act of trading or any other management activities with related parties and other specified entities, in light of conditions such as the following: <ol style="list-style-type: none"> a. Where a transaction exists between the corporate group of the initial listing applicant and its related parties and/or any other specified entities, the transaction has the rationality for it to be continued and the trading conditions including trading prices are reasonable b. The environment is such that benefits of the corporate group of the initial listing applicant will not be not lost wrongfully due to related parties or any other specified entities of the corporate group of the initial listing applicant giving priority to their own benefits
<p>2 Soundness of corporate management</p>	<ol style="list-style-type: none"> 2. If the initial listing applicant has a parent company or the like, management activities of the corporate group of the initial listing applicant shall be recognized to be independent from such entity in light of conditions such as the following: <ol style="list-style-type: none"> a. In light of the relationship between the business of the corporate group of the initial listing applicant and that of the corporate group of the parent company or the like, adjustments to the business made by the corporate group of the parent company or the like. the possibility of this adjustment happening, and other matters, the initial listing applicant is not recognized to be substantially a business division of the parent company or the like b. The corporate group of the initial listing applicant or that of a parent company or the like does not coerce or induce acts of trading that are disadvantageous to the company group of the initial listing applicant (e.g., transactions under conditions that are significantly different from those of a normal transaction) c. Reception of seconded persons by the corporate group of the initial listing applicant is recognized not to heavily depend on the parent company or the like, and not hinder continuous management activities
<p>3 Effectiveness of corporate governance and internal management system of an enterprise</p>	<ol style="list-style-type: none"> 1. The system to secure the execution of appropriate work duties of officers of the corporate group of the initial listing applicant, as well as the internal management system and other such systems to carry out management activities of the corporate group of the initial listing applicant are recognized to be established and operated appropriately 2. The accounting system of the corporate group of the initial listing applicant is recognized as appropriate from the viewpoint of investor protection
<p>4 Appropriateness of disclosure of corporate information, etc.</p>	<ol style="list-style-type: none"> 1. The corporate group of the initial listing applicant is recognized to be able to properly manage corporate information such as facts that have a material effect on management, and a system for making timely and appropriate disclosures to investors and the preemptive prevention of insider trading is deemed to be established and operated appropriately

-
- 4 Appropriateness of disclosure of corporate information, etc.
2. Of the documents required for initial listing application, those pertaining to disclosure of corporate information are deemed to have been prepared in compliance with laws and regulations, and to contain information such as the following:
 - a. The legal system of the home country or the like of the initial listing applicant, the financial conditions and financial results of the initial listing applicant and its corporate group, as well as matters which may have a material effect on investment decisions of investors, such as important matters concerning officers, major shareholders, and related companies
 - b. The following matters pertaining to the premise of the corporate group of the initial listing applicant conducting its main business activities:
 - c. Matters which are the premises of the corporate group of the initial listing applicant conducting its main business activities
 - d. Where the validity period of permission, authorization, etc., or any other time limit is specified by a law, regulation or contract, such time limit;
 - e. Where cancellation, rescission, and any other event of permission and authorization, etc., are stipulated by a law, regulation or contract, such fact and content
 - f. The fact that there is no factor which hinders the continuity of matters which are the premises of the corporate group of the initial listing applicant conducting its main business activities, and that if such factor arises, the fact that it will have a material effect on business activities
 3. Disclosure of the actual state of the corporate group of the initial listing applicant is not distorted due to an act of trading or adjusting the stock ownership ratio conducted with related entities or other specified entities
-
4. If the initial listing applicant has a parent company or the like, either of the following conditions shall be met on the premise that disclosure of such parent company or the like is valid:
 - a. A stock or the like issued by the parent company or the like of the initial listing applicant is listed on a domestic financial instruments exchange (including cases where a stock or the like issued by the parent company is listed or continuously traded on a foreign financial instruments exchange or the like, and the state of disclosure on corporate affairs in the country in which the parent company or foreign financial instruments exchange is located is not deemed to markedly lack investor protection)
 - b. The initial listing applicant is able to appropriately learn company information of the parent company which has a material effect on the applicant's management, and the parent company has promised in writing that it agrees to the applicant appropriately disclosing such information to investors
-

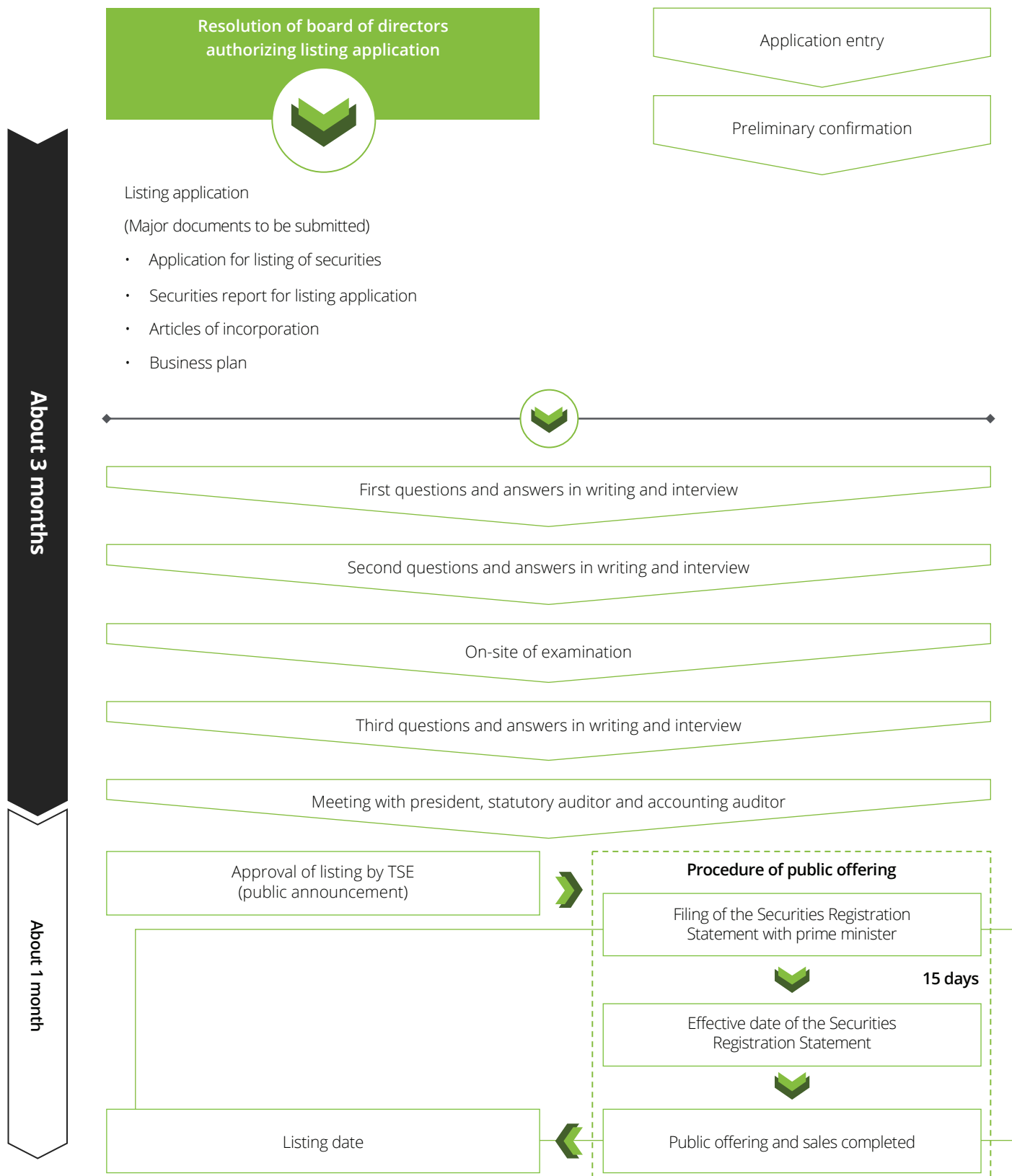
<p>5 Other matters deemed necessary by TSE from the viewpoint of public interest or the protection of investors</p>	<ol style="list-style-type: none"> 1. The contents of the rights of shareholders and the state of the exercise of these rights meet both of the following conditions and are deemed appropriate from the viewpoints of public interest or the protection of investors: <ol style="list-style-type: none"> a. The contents of the rights of shareholders and their exercise are not unreasonably restricted b. Where the initial listing applicant has introduced a takeover defense measure, the initial listing applicant complies with all of the following conditions: <ol style="list-style-type: none"> i. Sufficient disclosure: ii. The listed company shall make necessary and sufficient timely disclosures concerning takeover defense measures iii. Transparency: iv. Conditions of implementation and abolishment of takeover defense measures shall not depend on arbitrary decisions by the management v. Effect on the secondary market: vi. Takeover defense measures shall not include factors which may cause extremely unstable price formation of a stock or any other factors which may cause unpredictable damage to investors vii. Respect for shareholders' rights: viii. Takeover defense measures shall give consideration to shareholders' rights and their exercise 2. The corporate group of the initial listing applicant does not have a contention, dispute, or the like, which would have a material effect on management activities and business performance 3. The corporate group of the initial listing applicant is recognized to have prepared an internal system to prevent criminal and extremist elements from becoming involved in management activities, it is making efforts to prevent such involvement, and the actual state of these efforts and activities is recognized as appropriate from the viewpoints of public interest or the protection of investors 4. Other matters are deemed appropriate from the viewpoints of public interest or the protection of investors
---	--

2. Listing examination schedule

The listing examination schedule of foreign companies may vary depending on factors such as the legal basis for foundation and accounting standards applied. For reference, the following shows a typical listing schedule for foreign companies. The examination

period for foreign companies will take 3 months from the acceptance of listing application. Actual examination will be entrusted to JPX Regulation by TSE.

Standard examination schedule (foreign companies)



03. Financing upon listing (public offering or secondary offering)

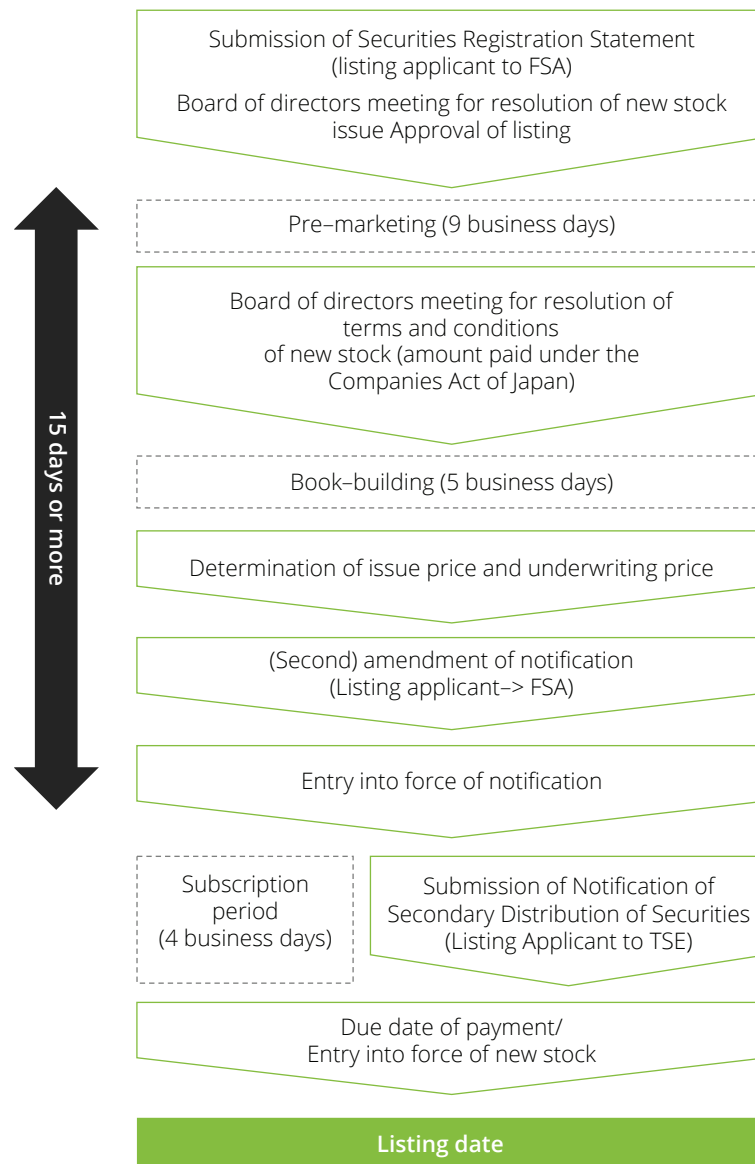
1. Procedure for public offering and the like for listing

TSE does not have special rules for foreign companies regarding the procedure of making public offering or secondary offering on listing. In general, foreign companies are required to take the same procedures as Japanese companies. In addition, all the listing procedures in the past 15 years have been performed via book-building.

- a. Book-building (Survey on investors' demand for public offering and the like made before listing that is conducted pursuant to TSE rules)
- b. Public offering, etc., through competitive bidding (Public offering and the like made before listing that is conducted pursuant to TSE rules)

2. Financing schedule upon listing (in the case of an unlisted company)

The chart below indicates a model schedule after obtaining approval for listing and up to the listing of shares. As this schedule is only a model, the actual financing schedule (including the pre-marketing period, book-building period, board of directors' meeting for resolution of terms and conditions thereof, and timing of submission of the Securities Registration Statement) may differ according to each applicant.



04. Restructuring the Market Segments

TSE is planning to restructure the Cash Equity market from April 2022, reorganizing the current five market segments: First Section, Second Section, Mothers, JASDAQ Standard, and JASDAQ Standard Growth, into three new market segments; Prime market, Standard market and Growth market.

The following rules are still undecided, so please note that they may be changed in the future.

1. Purpose of Restructuring the Market Segments

Japan Exchange Group, Inc.'s mission is to contribute to the realization of an affluent society, and through restructuring of the Cash Equity Market with a clear market concept, incentivizing sustainable growth and medium- to long-term corporate value creation of listed companies that further attracts various types of investors, both domestic and foreign, it aims to promote the sustainable development of the Cash Equity Market.

2. Basic Concept of the New Market Segments

Segment	Concept	Purpose
Prime Market	A market for companies whose market capitalization (liquidity) is large enough to attract investments from many institutional investors, that also have a high quality of corporate governance, as well as a commitment to sustainable growth and medium-to-long-term improvement of corporate value with a focus on constructive dialogue with investors, and a market for those institutional and general investors investing in such companies.	Ample liquidity investable for various types of institutional investors Effective basis for constructive dialogue with institutional investors Stable and excellent revenue/financial base
Standard Market	A market for companies that have a base-line, standard level of market capitalization (liquidity) representing an appropriate investment opportunity as a public company, have a basic corporate governance structure as a listed company, and that are committed to sustainable growth and medium-to-long-term enhancement of corporate value, and a market for institutional and general investors investing in such companies.	Enough liquidity for smooth trading Basic level of governance Stable revenue/financial status
Growth Market	A market for companies that have a business plan to realize their high growth potential, the progress of which is timely and appropriately disclosed, and have obtained a certain level of market value, but at the same time, have a relatively higher risk from the viewpoint of business performance and a market for institutional and general investors investing in	Appropriate investment decisions on high growth potential Minimum liquidity for public investors Governance in accordance with growth stage

3. Outline of the New Listing Requirements

- a. Listing requirements for each market segment set market capital (liquidity), corporate governance and other criteria in accordance with the market concept.
- b. As for Initial Listing and Continued Listing, basically the requirements are the same (same standard applies). Listed companies are required to meet the same level of standard as initial listing, after listing
- c. Each market segment is independent, thus there will be no special lowered requirements for transfer between segments. Listed companies, if they wish to, can apply to transfer to another segment, and will be subject to the same level of process and requirements as for an initial listing
- d. Other than the following requirements in accordance with the market concept, all three markets will have the same requirements for restrictions on share transfers, selection of transfer agent, etc.

Prime Market			
	Criteria	Initial Listing	Continued Listing
Liquidity	Number of Shareholders	At least 800 shareholders	
	Number of Tradable Shares	At least 20,000 units	
	Tradable Share Market Capital	At least JPY 10 billion	
	Trading Value	At least JPY 25 billion market capital	At least daily JPY average 20 million.
Governance	<ul style="list-style-type: none"> Revised Corporate Governance Code should be fully applied. The planned Code revision is expected to suggest a higher standard for Prime listed companies. To ensure constructive dialogue with institutional investors, must maintain “public market control” by keeping tradable share ratio, with so-called “stable shareholders” holding less than 2/3 of shares (threshold to pass a special resolution under the Companies Act) 		
	Criteria	Initial Listing	Continued Listing
	Tradable Share Ratio	At least 35%	
Business Performance	<ul style="list-style-type: none"> Eligibility requirements for business performance and financial status will be examined when either A or B is met (Condition for accepting application for an IPO) 		
	Criteria	A. (Profit)	B. (Sales)
	Business Performance	Total profit for recent 2 years, at least JPY 2.5 billion	Sales at least JPY 10 billion and market cap at least JPY 100 billion
	Financial Status	Shareholders' Equity at least JPY 5 billion	
Standard Market			
	Criteria	Initial Listing	Continued Listing
Liquidity	Number of Shareholders	At least 400 shareholders	
	Number of Tradable Shares	At least 2,000 units	
	Tradable Share Market Capital	At least JPY 1 billion	
Governance	<ul style="list-style-type: none"> Corporate Governance Code should be fully applied. Basic level of tradable share ratios required as public company (same level as global stock exchanges) 		
	Criteria	Initial Listing	Continued Listing
	Tradable Share Ratio	At least 25%	
Business Performance	<ul style="list-style-type: none"> Eligibility requirements for business performance and financial status will be examined when the below requirements are met (Condition for accepting application for an IPO) 		
	Criteria	A. (Profit)	B. (Sales)
	Business Performance	Profit at least JPY 0.1 billion in the most recent yr.	N/A
	Financial Status	Net Assets are negative	

Standard Market			
	Criteria	Initial Listing	Continued Listing
Liquidity	Number of Shareholders	At least 150 shareholders	
	Number of Tradable Shares	At least 1,000 units	
	Tradable Share Market Capital	At least JPY 0.5 billion	
Governance	<ul style="list-style-type: none"> • Basic level of tradable share ratios required as public company (same level as global stock exchanges) 		
	Criteria	Initial Listing	Continued Listing
	Tradable Share Ratio	At least 25%	
Business Performance	<ul style="list-style-type: none"> • All requirements below must be met <ol style="list-style-type: none"> Reasonable business plans in place Principle underwriter submits basis for its opinion on company's high growth potential Appropriate disclosure (after listing as well) on business plans and matters related to high growth potential (business model, market size, source of its competitive advantages, business risk) • Below required to ensure high growth potential is achieved/realized appropriately 		
	Criteria	Initial Listing	Continued Listing
	Market Capital	N/A	From 10th year of IPO JPY 4 billion

Deloitte.

デロイト トーマツ

Deloitte Tohmatsu Group (Deloitte Japan) is a collective term that refers to Deloitte Tohmatsu LLC, which is the Member of Deloitte Asia Pacific Limited and of the Deloitte Network in Japan, and firms affiliated with Deloitte Tohmatsu LLC that include Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co., DT Legal Japan, and Deloitte Tohmatsu Corporate Solutions LLC. Deloitte Tohmatsu Group is known as one of the largest professional services groups in Japan. Through the firms in the Group, Deloitte Tohmatsu Group provides audit & assurance, risk advisory, consulting, financial advisory, tax, legal and related services in accordance with applicable laws and regulations. With more than 15,000 professionals in about 30 cities throughout Japan, Deloitte Tohmatsu Group serves a number of clients including multinational enterprises and major Japanese businesses. For more information, please visit the Group's website at www.deloitte.com/jp/en.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

Deloitte provides industry-leading audit and assurance, tax and legal, consulting, financial advisory, and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our professionals deliver measurable and lasting results that help reinforce public trust in capital markets, enable clients to transform and thrive, and lead the way toward a stronger economy, a more equitable society and a sustainable world. Building on its 175-plus year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte's more than 345,000 people worldwide make an impact that matters at www.deloitte.com.

Member of
Deloitte Touche Tohmatsu Limited

© 2022. For information, contact Deloitte Tohmatsu Group.



IS 669126 / ISO 27001