















Japan Tax Briefing

2023

Japan - Technical Topics

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Japan income tax basics: Snapshot

- Japanese taxation depends on the residency status in Japan :
 - Non-permanent resident, Permanent resident, Non-resident
- Calendar tax year: 1 January to 31 December
- No joint filing system
- Two types of income tax
 - National income tax
 - Local inhabitants tax
- Individual tax return filing and payment deadline: 15 March of the following year (no extensions)

Tax residency and scope of taxation

Overview

The scope of taxation in Japan depends on your residency status:

Note:

Your tax residency status is separate from your VISA status for income tax purposes.

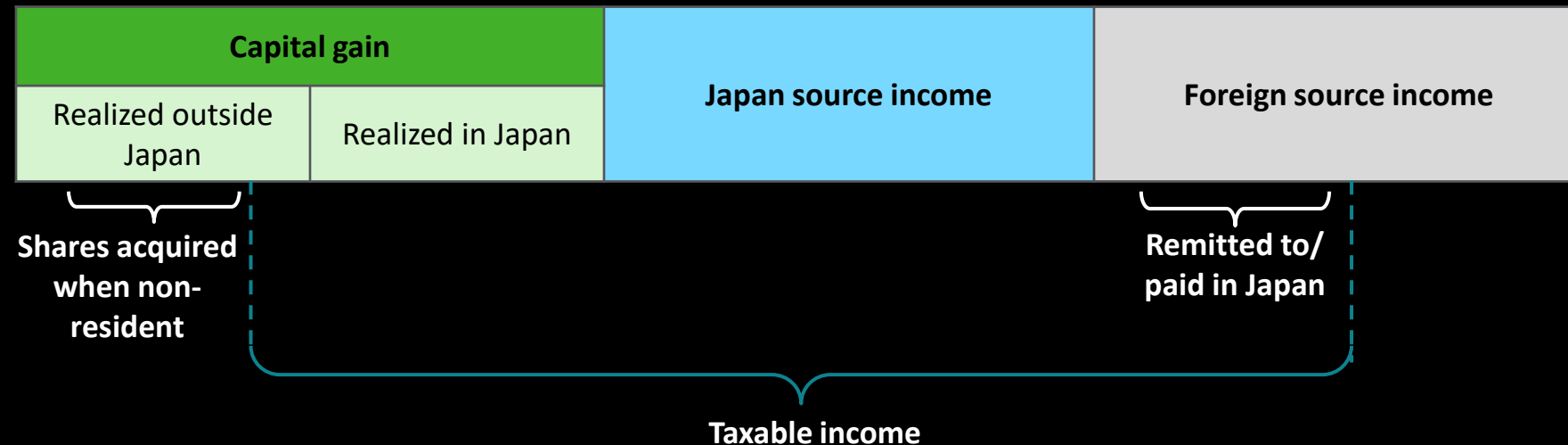
Where income is attributable			Scope of Taxation					
			Japan source income		Foreign source income		Capital gains from Securities and bonds	
Payment location			Paid in Japan	Paid outside Japan	Paid in Japan	Paid outside Japan	Realized in Japan	Realized outside Japan
Residency classification	Resident	Permanent	Taxable					
		Non-permanent	Taxable		Taxable if remitted into Japan	Taxable	Taxable if shares were acquired as a Japan resident	
	Non-resident		Taxable		Non-Taxable			

Tax residency and scope of taxation

Non-permanent resident

Definition:

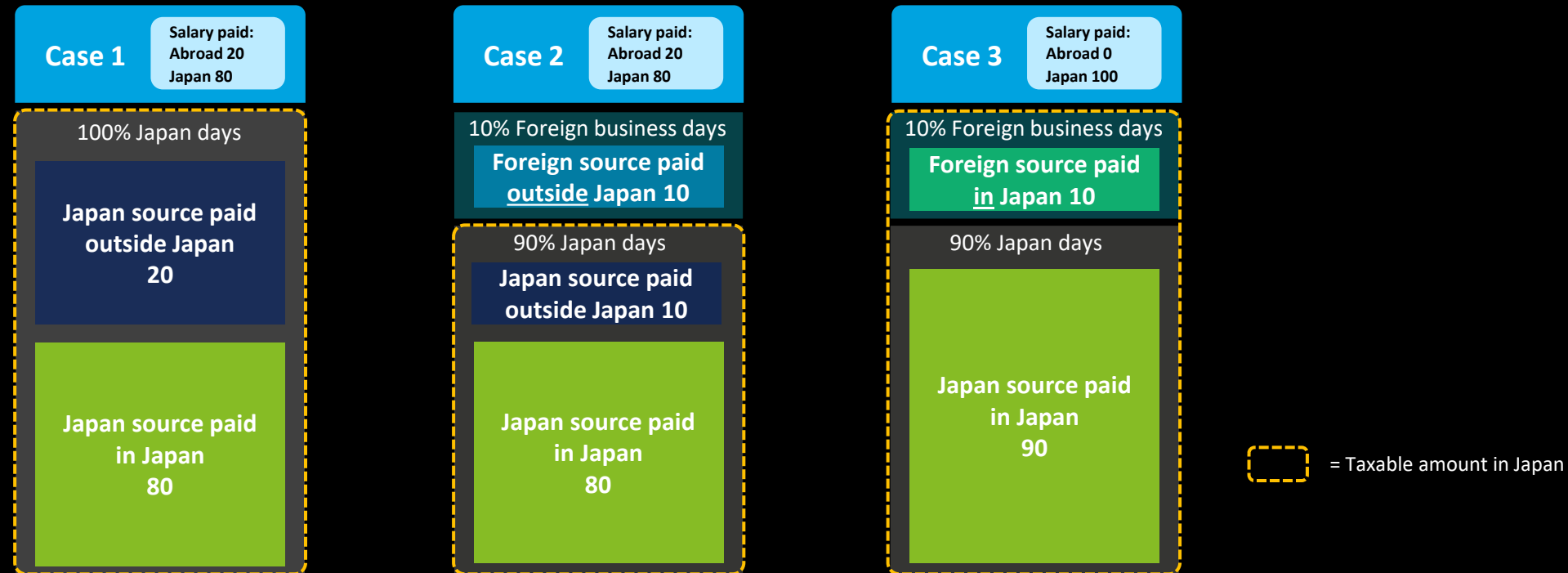
- Does not possess Japanese nationality
- Has an employment contract in Japan that would ordinarily require presence in Japan for a period of 12 months or more, or has otherwise maintained an abode/domicile in Japan for 12 months or more
- Has maintained a domicile or abode in Japan for 5 years or less in the preceding 10 years



Taxed on all income except foreign source income and Capital gains such as foreign listed stocks that were acquired prior to arriving to Japan that are not paid in, remitted or effectively remitted to Japan.

Tax residency and scope of taxation

Non-permanent resident – Business days and foreign source income



How to count foreign business days?

- The day you leave Japan is treated as a full-Japan working day, and the day you return back to Japan is considered as a full-non-Japan working day.
- For extremely short-term overseas business trips involving red-eye flights, whether the date of departure is considered a Japan workday or non-Japan workday, this depends on which country you were in before midnight. Leaving Japan after midnight makes the following day another Japan workday because the date has changed.

Tax residency and scope of taxation

Non-permanent resident – Remittances

Examples of remittances to Japan include:

- Income remitted directly to Japan bank accounts from non-Japan accounts (e.g. wire transfers)
- Income withdrawn from a non-Japan bank account via an ATM in Japan
- Income directly deposited into a Japan bank account
- Credit card remittances – generally includes: goods and services purchased in Japan with a credit card where the monthly bill was settled through a bank account outside Japan

Tax residency and scope of taxation

Non-permanent resident – Remittance taxation

Working example: impact of remittances (Assumption: There are no capital gains)

Case 1					
Japan source paid in Japan	40		Worldwide Income 120	Case 1 Remittance to Japan 20	Case 2 Remittance to Japan 60
Japan source paid outside Japan and remitted to Japan	20				
Japan source paid outside Japan	20		Foreign source income 40	Non taxable 40	Non taxable 20
Taxable amount in Japan	80				Foreign source income remitted to Japan 20
Case 2					
Japan source paid in Japan	40			Paid outside Japan 20	Paid outside Japan and remitted to Japan 40
Japan source paid outside Japan and remitted to Japan	40		Japan source income 80	Paid outside Japan and remitted to Japan 20	
Foreign source remitted into Japan	20			Paid in Japan 40	Paid in Japan 40
Taxable amount in Japan	100				



Additional taxable income



= Taxable amount in Japan



Tax residency and scope of taxation

Non-permanent resident – Capital gains

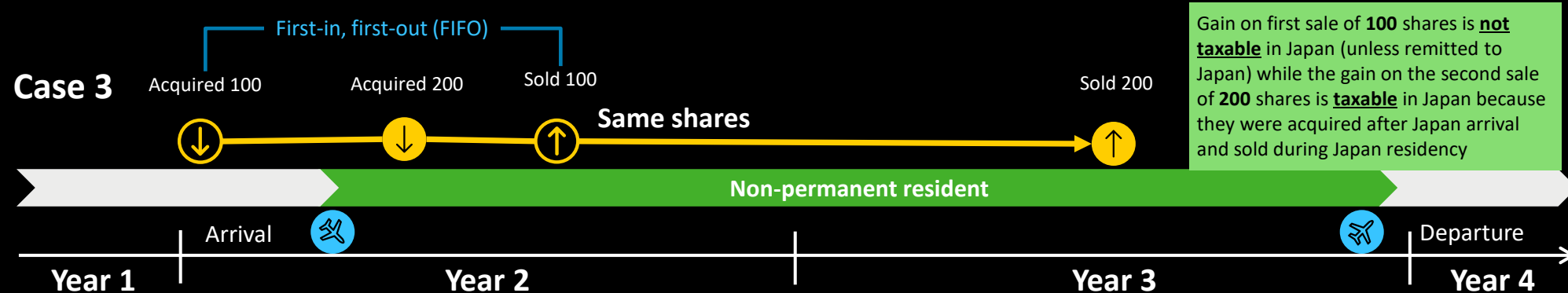
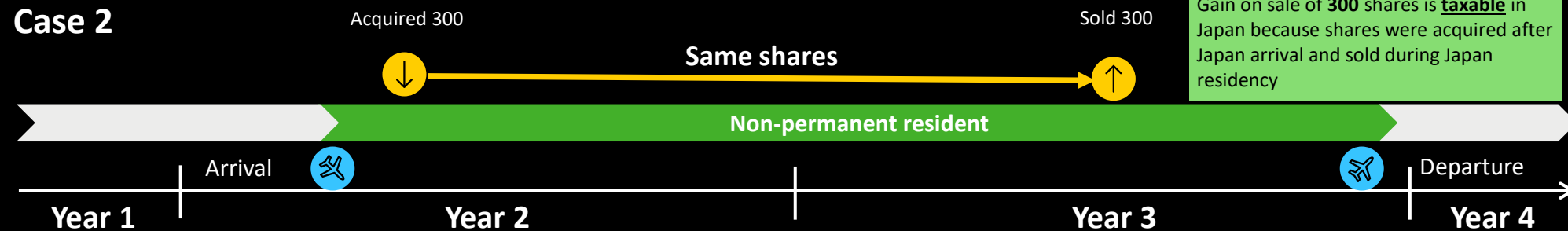
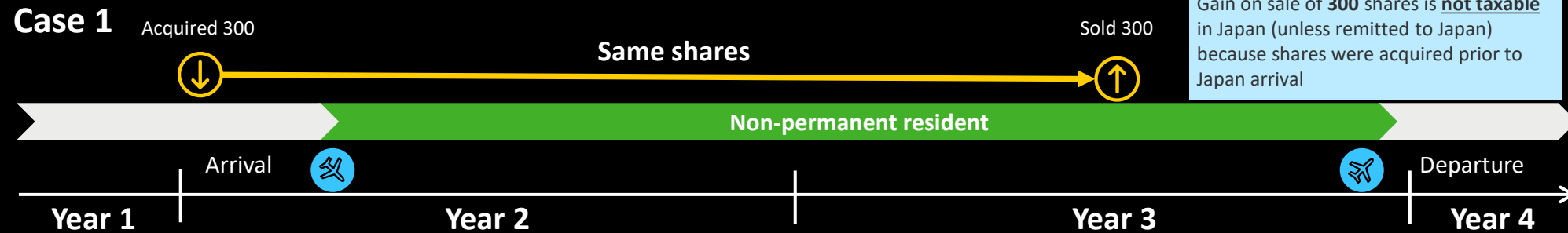
Examples of Capital gains from securities

- Capital gains on overseas listed shares and securities acquired after arrival to Japan, or
- Capital gains on RSU vested/SOP exercised after arrival to Japan
- Capital gains on non-listed shares not subject to any foreign taxes

* In case of multiple acquisitions of the same shares and securities, the first-in, first-out (FIFO) method will be applied to determine the acquisition dates of the shares and securities sold.

Tax residency and scope of taxation

Non-permanent resident – Capital gain examples

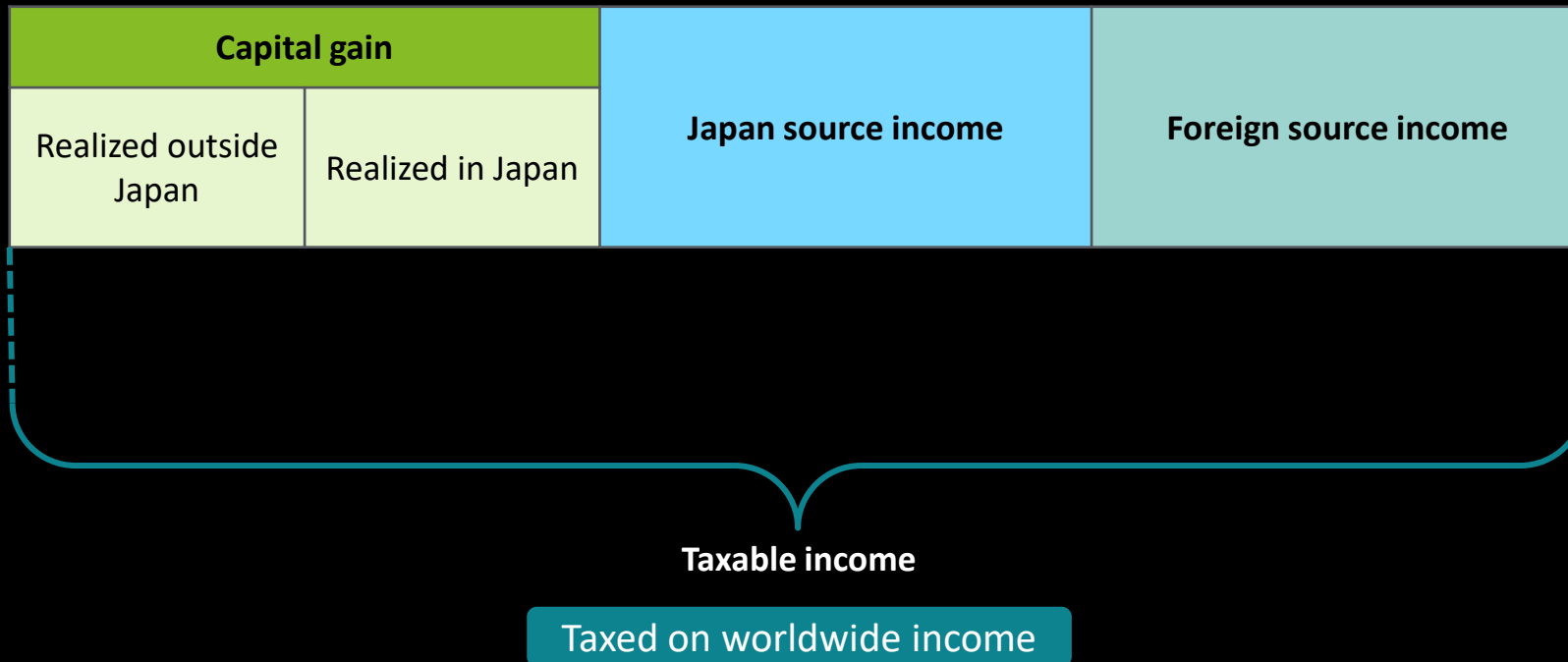


Tax residency and scope of taxation

Permanent resident

Definition:

- Japanese nationals
- Foreign nationals who have stayed in Japan for more than 5 years in the preceding 10 years

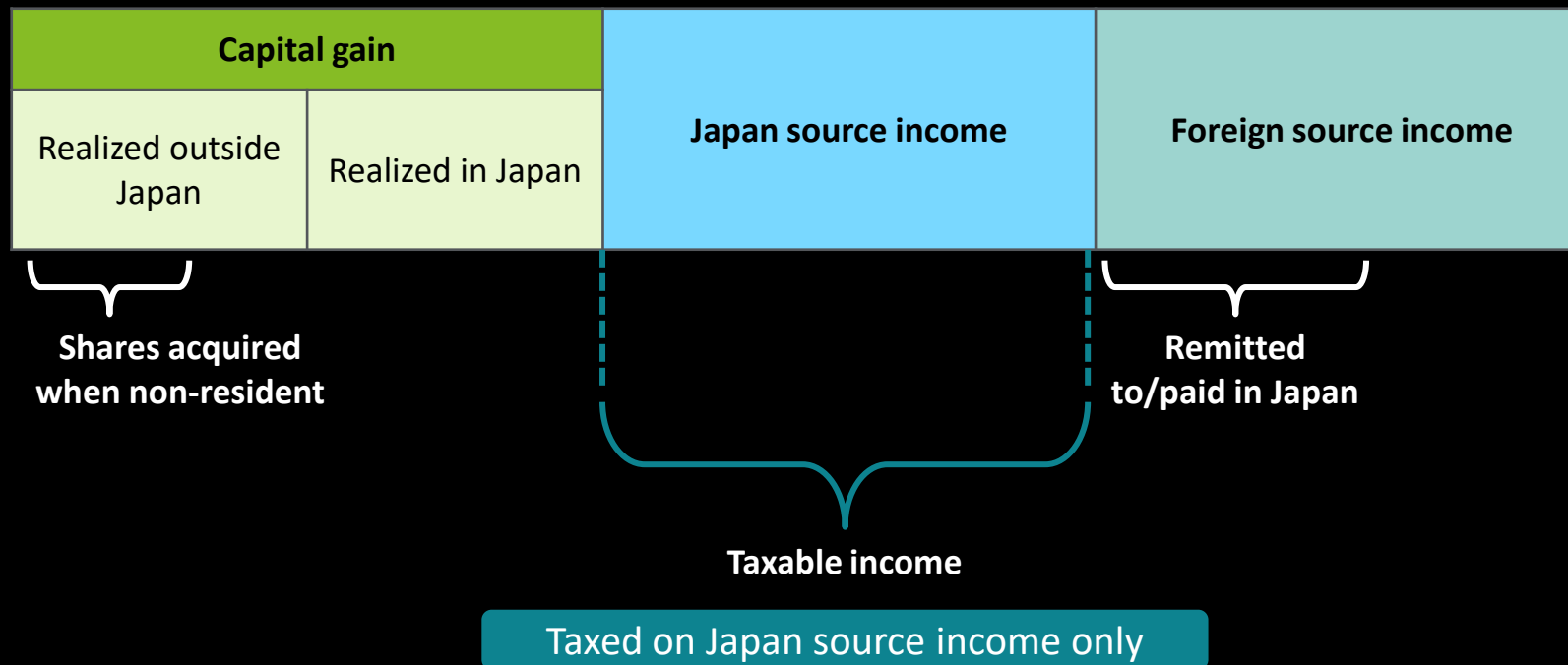


Tax residency and scope of taxation

Non-resident

Definition:

- An individual who is not a Japanese permanent resident or non-permanent resident (i.e. maintains a domicile or abode in Japan for less than 12 months)



Income tax and social security

Overview

National Income Tax

NIT




- Taxed under a progressive tax rate or separate flat rate taxation depending on income category
- NIT may be collected via withholding at source or declared on a NIT return for the year.

Local Inhabitants Tax

LIT

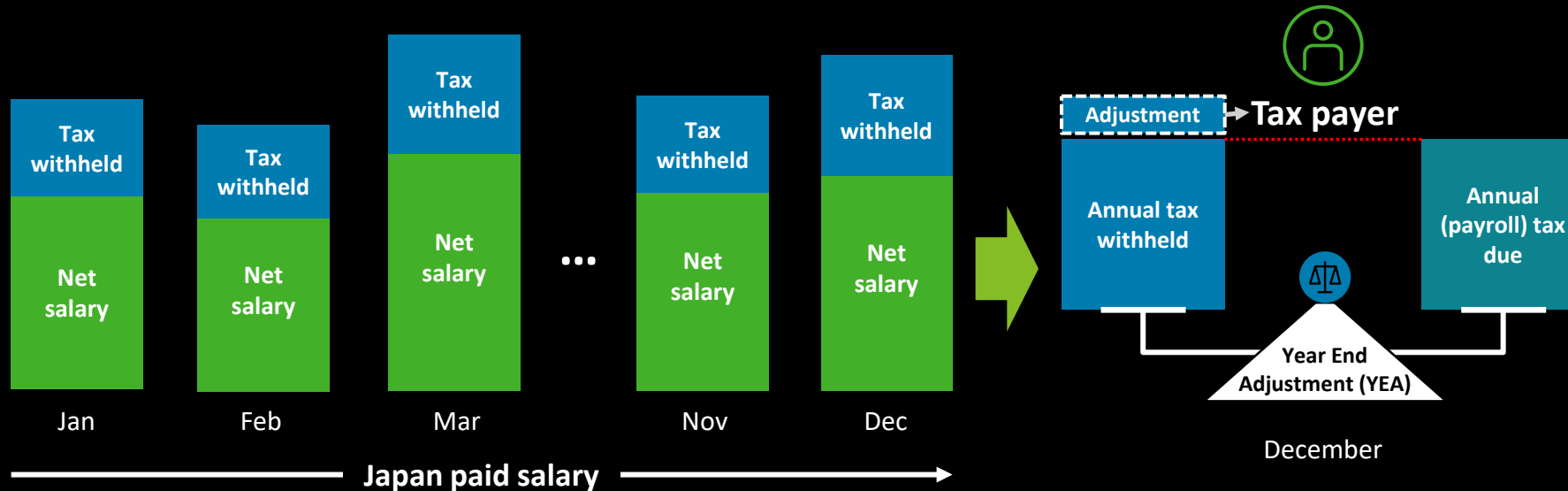
- In general, taxed at a flat rate of 10%
- Assessed on individuals who are resident in Japan on 1st January and assessed on prior year annual income
- LIT is payable in either:
 - One lump sum in June
 - Four instalments on 30 June, 31 August, 31 October, 31 January
 - 12 monthly instalments via monthly payroll withholding from June to May

Social security

- Enrollment into Japanese social security is required if you intend to stay in Japan for a period that exceeds 90 days
- If applicable, you are required to enroll in:
 -  Health Insurance
 -  Pension
 -  Nursing Care Insurance (if over 40 years old)
- If there is a social security agreement between your home country and Japan, requirements may change

Income tax and social security

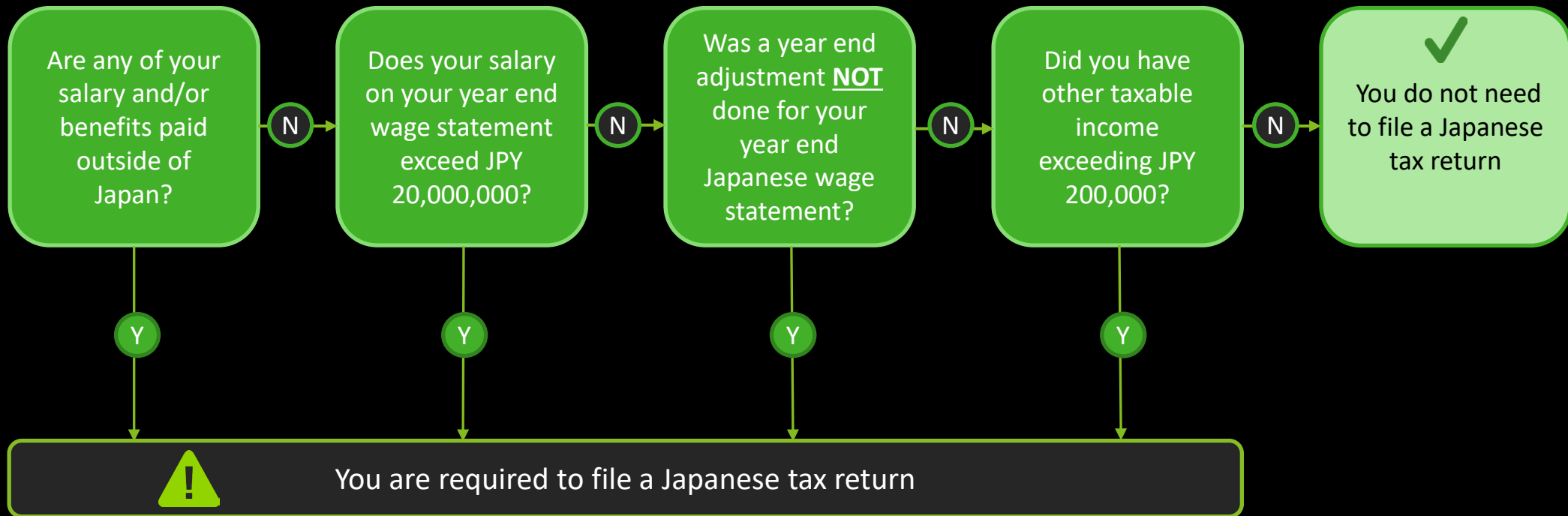
NIT - Payroll withholding and Year-End-Adjustment



- Income tax withholding is required at source for all compensation and benefits paid in Japan
- Tax withholding is operated by the employer and remitted to the authorities on behalf of the employee
- The employer will perform a year end adjustment to reconcile any over or under-withholding of income tax during the year, if your annual income level is **less than JPY 20 million**.
- The employer will issue an annual statement of withholding to employees by 31 January of the following year

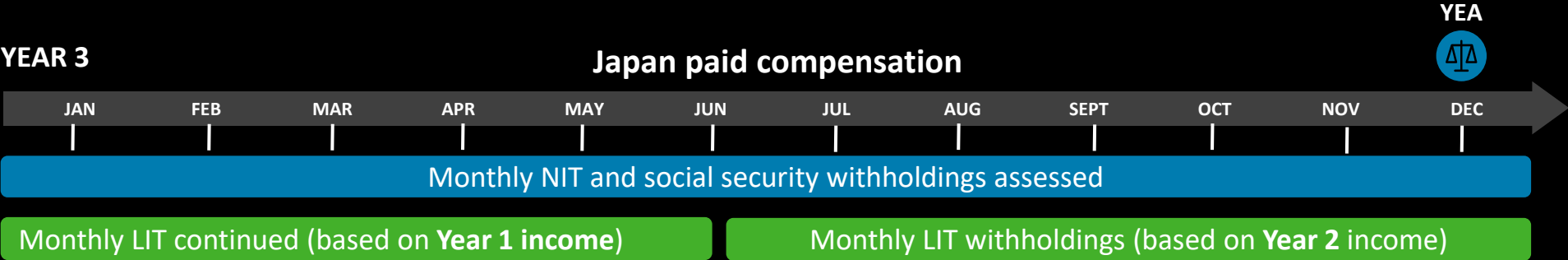
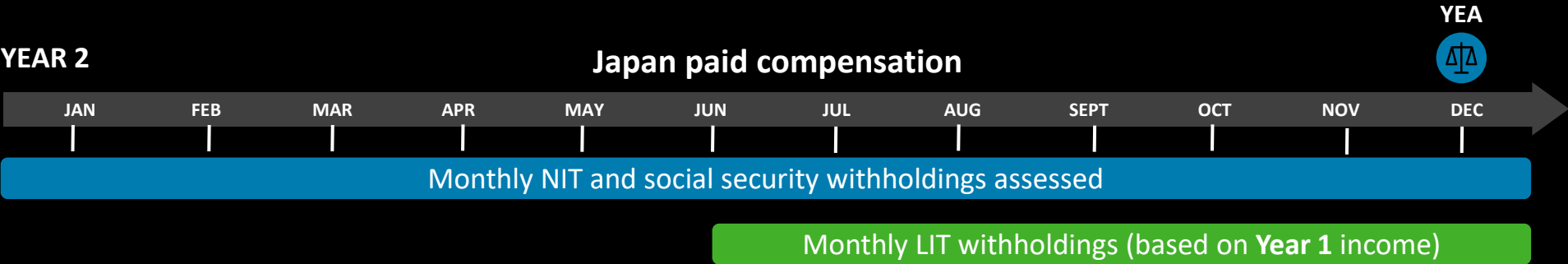
Income tax and social security

NIT – Tax return filing requirement



Tax payment timeline

Japan paid (Onshore) compensation

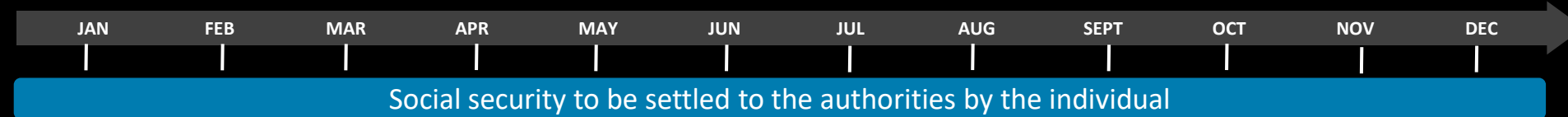


Tax payment timeline

Non-Japan paid (Offshore) compensation

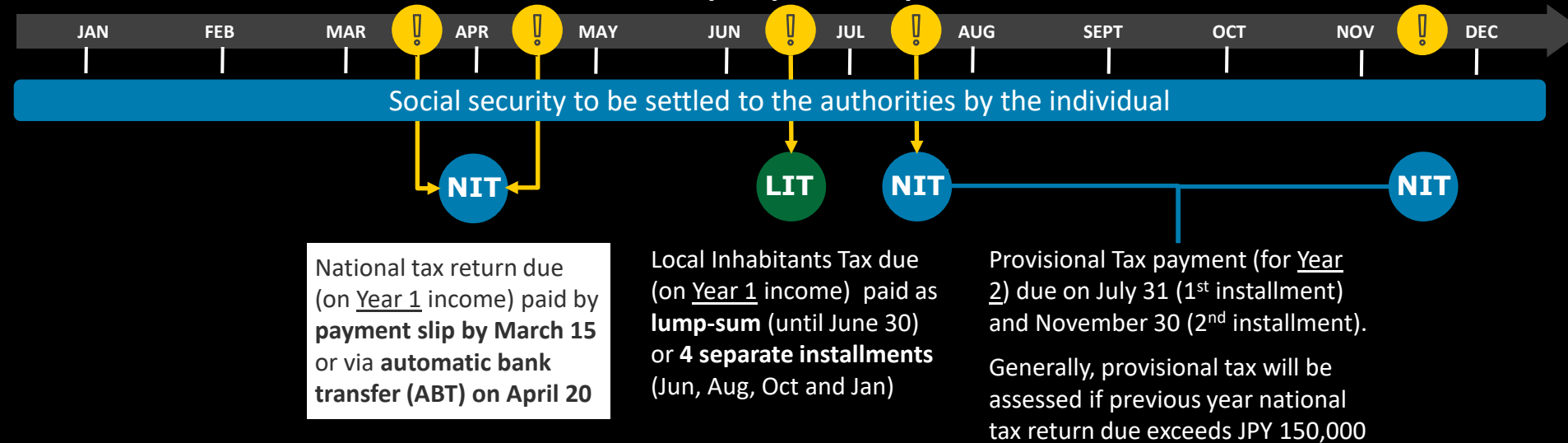
YEAR 1

Non-Japan paid compensation



YEAR 2

Non-Japan paid compensation




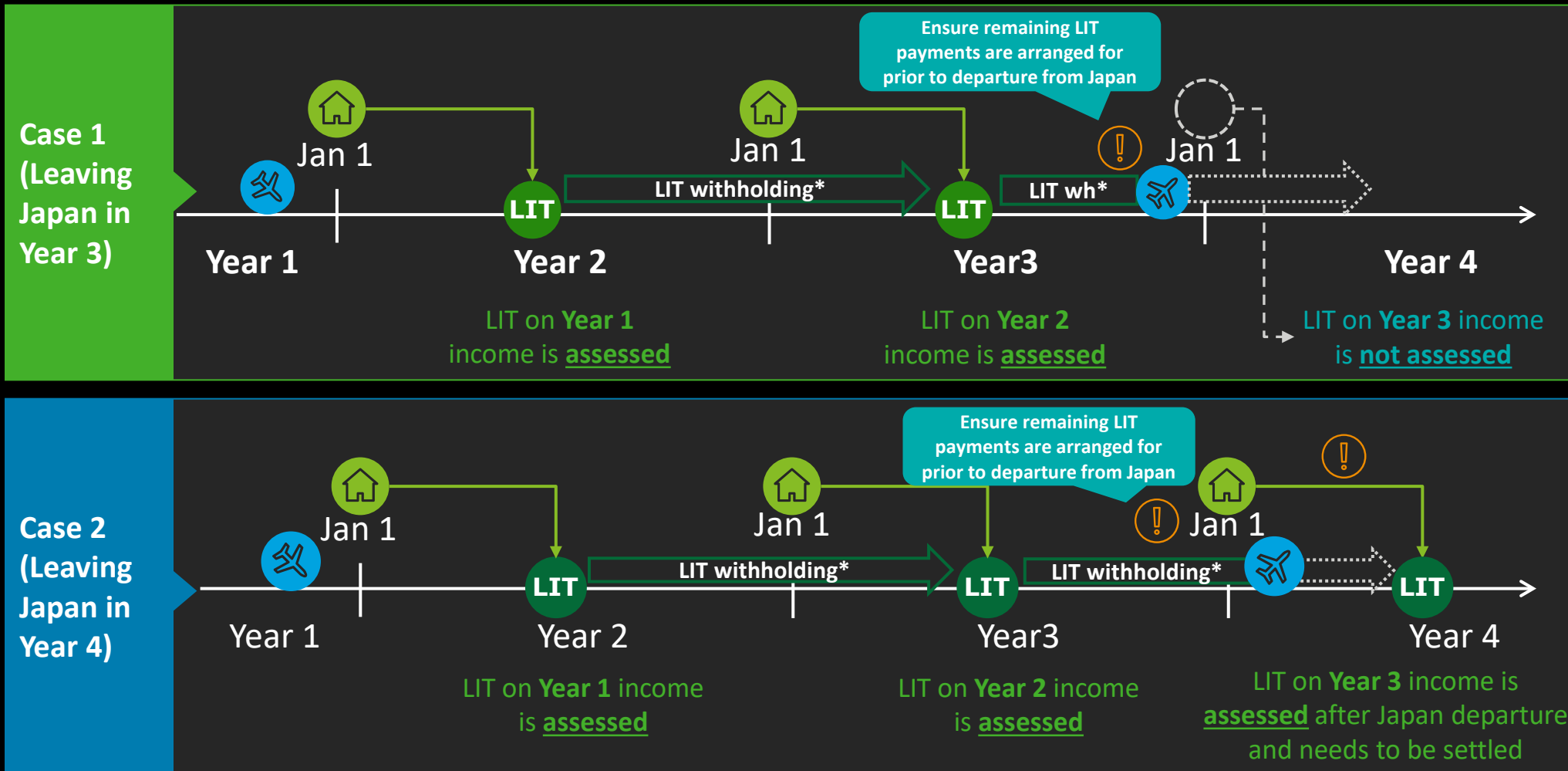
YEAR 3

Similar to Year 2

Tax payment timeline

LIT – Departure timing implications

 = Resident in Japan



*Monthly LIT withholdings are applicable if the individual is on a Japan payroll.

Classes of income and taxation

Summary

Class of income	Taxation	Tax rates**
Employment income	Aggregate taxation	Progressive taxation
Business income		
Rental income		
Ordinary capital gain		
Occasional income		
Miscellaneous income		
Interest income		
Dividend income	Separate taxation	Flat rate 20.315% or 20.42%
Capital gains – real estate		Flat rate 20.42 or 39.63%
Capital gains – stock		Flat rate 20.315%
Retirement income		Progressive taxation
Forestry income		Progressive taxation

National and local income tax rates (resident)**

Income Band (JPY)	National tax*	Local tax	Combined
1,000 – 1,949,000	5.105%	10%	15.105%
1,950,000 – 3,299,000	10.21%	10%	20.21%
3,300,000 – 6,949,000	20.42%	10%	30.42%
6,950,000 – 8,999,000	23.483%	10%	33.483%
9,000,000 – 17,999,000	33.693%	10%	43.693%
18,000,000 – 39,999,000	40.84%	10%	50.84%
40,000,000 and above	45.945%	10%	55.945%

*A “Restoration Surtax” of 2.1% is included for national tax.

** Tax rates are subject to change

National income tax rate (non-resident)**

Income band	National tax*
Flat rate	20.42%

Classes of income and taxation

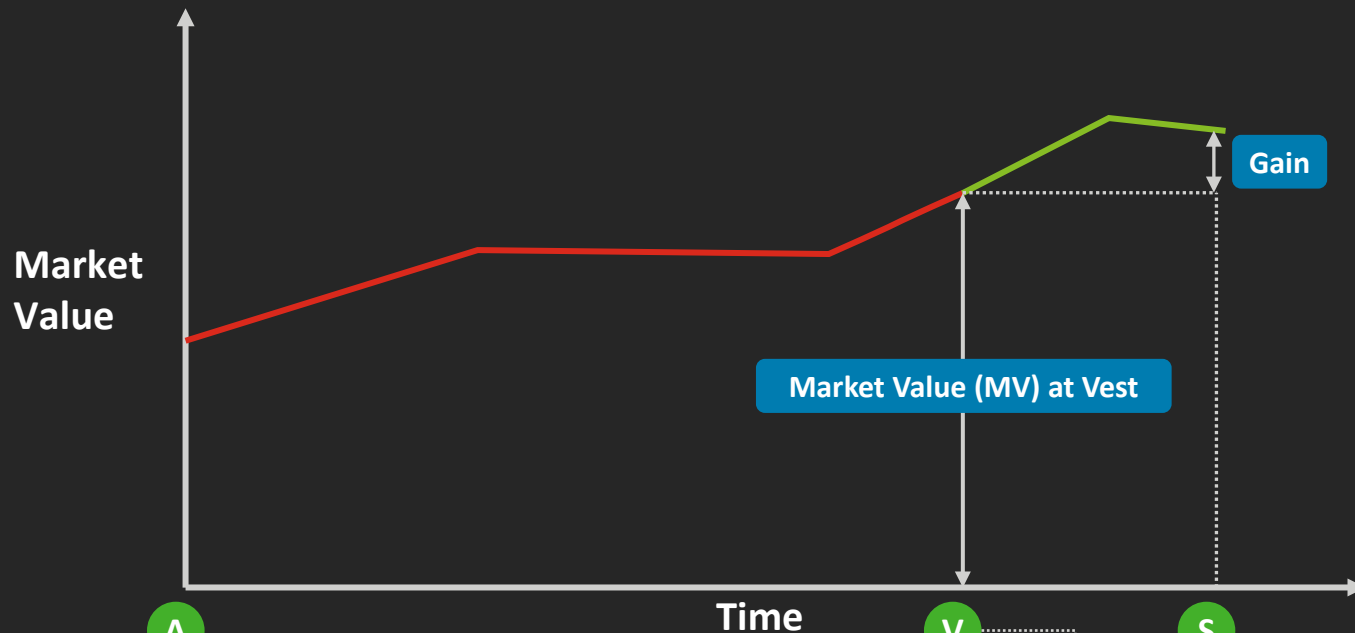
Employment income

Class of income	Additional details
Employment income	<ul style="list-style-type: none">• Base salary• Cash bonus• Benefits in kind/non-cash benefits• <u>Equity income</u> (discounted employee stock purchase plans, stock options, restricted stock units). Note that stock options issued under certain schemes in Japan are subject to capital gains tax only.• Cost of living allowance• Tax reimbursements• Employer contributions to offshore pension scheme (e.g. 401K Plan)

Classes of income and taxation

Equity income – Restricted Stock Unit

Restricted Stock Unit (RSU) = a contingent right to receive shares in the future



Award: employee given contingent right to future shares, subject to vesting period(s) & conditions;

Vest: shares have been earned- employee becomes entitled to the shares

Sale: sale of shares acquired

1st taxation event

Japan tax as employment income on value at vest:
 $MV \times \text{number of shares}$

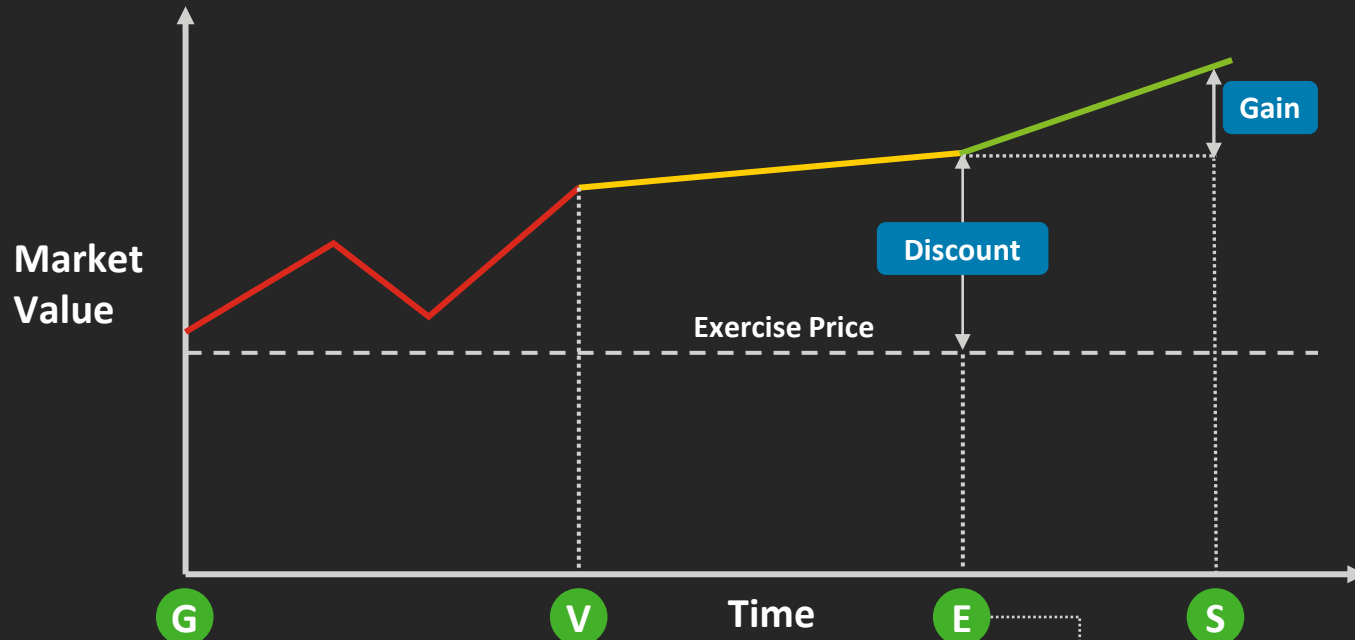
2nd taxation event

Japan tax as capital gain on sale if there is a further gain at sale timing

Classes of income and taxation

Equity income – Stock option

Stock option (SOP) = a right to buy shares at a given price



Grant: date at which option given to employee

Vest: option has been earned- earliest date that option can be exercised

Exercise: take up right to acquire shares at (discounted) exercise price

Sale: sale of shares acquired

1st taxation event

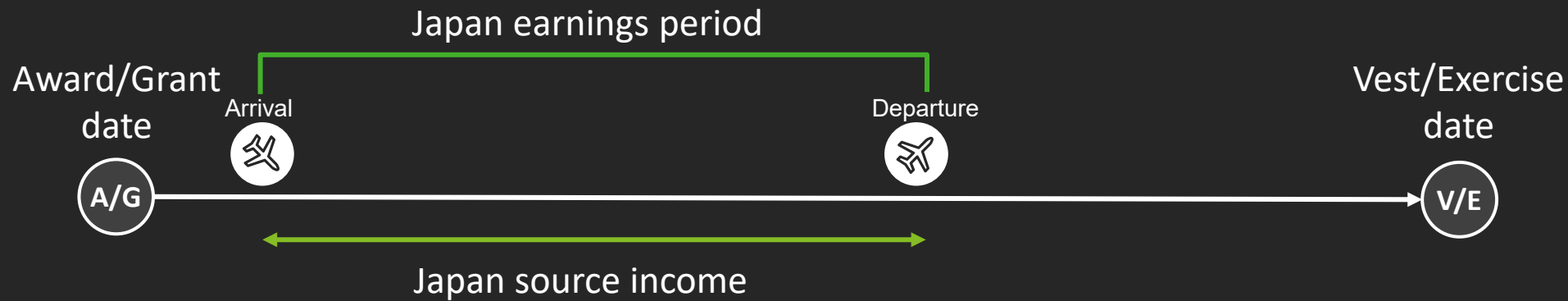
Japan tax as employment income on discount:
 $(MV - \text{Exercise Price}) \times \text{number of shares}$

2nd taxation event

Japan tax as capital gain on sale if there is a further gain at sale timing

Classes of income and taxation

Equity income – Japan source income



- The source of equity income taxable at vest (RSU) or exercise (SOP) as employment income is based on the earnings period between the award/grant date and the vest/exercise date.
- If you transfer internationally during this period, the equity income is split between countries based on the timing of your move.
- Generally, Japan taxes the Japan-sourced equity income. However, if you are a **Japanese National or Japan Permanent (Tax) Resident**, the full amount may be subject to tax in Japan.
- After departing from Japan, you may still need to file and pay Japanese taxes as a result of Japan-sourced income.

Classes of income and taxation

Capital gains

Class of income	Additional details
Capital gain stock	<ul style="list-style-type: none">• Capital gains arising from sale of shares must be reported on a Japan tax return.• Capital gains and losses from listed shares can be offset with gain/ losses from the sale of other foreign and Japanese securities if arising in the same year.• Any further loss resulting from Japan brokerage accounts can be offset against dividend income received from listed companies• Any remaining loss can be carried over for 3 years subject to conditions <u>only for Japanese securities</u>• Capital losses cannot be offset with other types of income such as employment income.• Tax rates: National tax 15.315%; Local tax 5%
Capital gains real estate	<ul style="list-style-type: none">• Categorized as long-term or short-term depending on holding period• Long term: held for more than five years as of 1 January of the year of the transfer• Rates : National tax 15.315%; Local tax 5%• Short term: held for five years or less as of 1 January of the year of the transfer• Rates: National tax 30.63%; Local tax 9%



Capital gains

Sale of principal residence

Capital gain (real estate)



In case principal residence is sold:

- 30 million yen may be deductible at the maximum from the capital gain regardless of the length of ownership if conditions are met. Conditions are, but not limited to:
 - ✓ Property was used for residential purposes
 - ✓ Deduction has not been applied for in past two years
 - ✓ No other special tax treatment was applied
 - ✓ Seller has no special relationship with buyer (such as parent/child, husband/wife etc.)
- If you buy a new residential property you will not be able to claim the home loan tax credit for that property if above deduction is claimed either within 2 years prior or 3 years after (total span of 6 years) the day you started residing in that property.
- Above deduction will not be claimable after a period of 3 years (until December 31 of the final year) from the day you cease to reside in that property.

Deductions

Overview

Deduction type		Brief description
Income Deduction	Employment income deduction	Maximum deduction up to JPY 1,950,000
	Personal exemption	JPY 0 - JPY 480,000
	Spousal exemption	JPY 0 - JPY 380,000
	Dependent exemptions	JPY 380,000 – 980,000 per person*
	Medical/dental expenses	Expenses not covered by the insurance
	Social insurance premiums	Deductible for employee contribution
	Life insurance premiums	Maximum deduction up to JPY120,000
	Earthquake insurance	Maximum deduction up to JPY 50,000
	Casualty losses	Deduction for losses from a disaster or a robbery
	Charitable contributions	Deductible for qualifying charitable contributions
Tax Credit	Foreign tax credit	Double taxation relief
	Dividend income credit	Applicable if tax return is filed
	Home loan credit	0.4 – 1.0 % of ending balance of the loan at year end

*Dependent must be 16 years or older to be eligible for the dependent exemption.

Deductions

Dependents residing outside of Japan

Supporting documentation must be provided to your employer or the tax authorities to claim an overseas dependent deduction. The documentation required should evidence both the relationship between the taxpayer and the dependent as well as ongoing financial support.

With effect from 2023, in case the age of overseas dependent is 30 or more but less than 70, minimum JPY 380,000 per year should be received by the dependent as living expenses or educational expenses.

Examples of documents

Verification of family

1. Copy of family registration, documents issued by foreign governments, copy of the passport of the family member,
OR
2. Copy of any other documents issued by foreign governments which indicate the name, date of birth, and the address of the family.

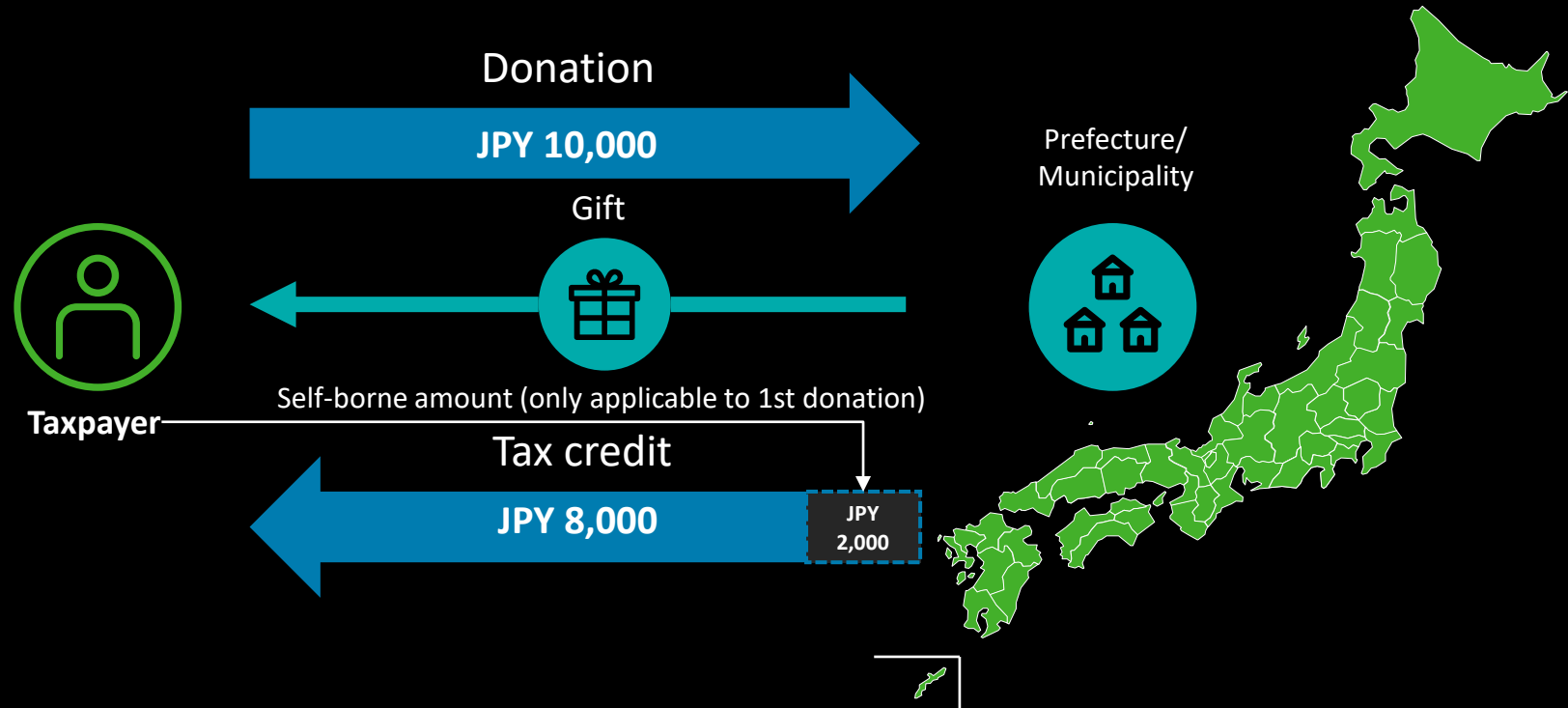
Verification of remittances

It should show the payment of living or educational costs of each family member

1. Statements issued by a financial institution that show the taxpayer's remittances to the family member,
OR
2. Family credit card statement issued by the credit card company that can prove that the family member has used the card to purchase goods.

Deductions

Furusato nozei (Hometown tax donation system)



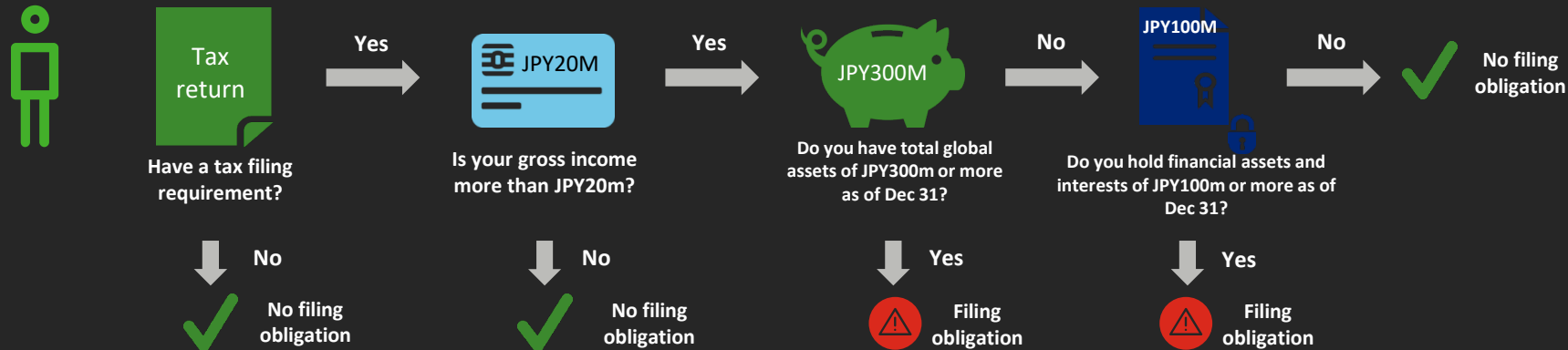
- Claimable tax credit amount is subject to limitation based on taxpayer's taxable income for the tax year
- Generally, the gift you receive in return for the donation is capped at 30% of the donated amount
- If total value of received gifts exceeds JPY 500,000 the income has to be reported on a tax return
- Depending on company policy (e.g. company bears the individual's Japanese income taxes) the tax credit may not affect the individual

Asset reporting requirement

Note:

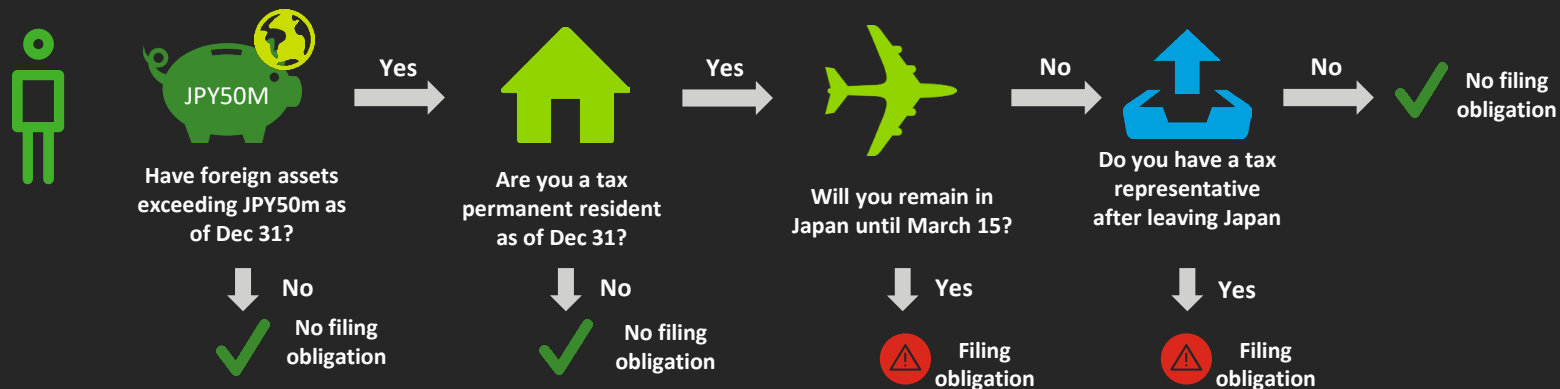
An under-reporting penalty rate on the additional taxable income applies. The rate is reduced by 5% if already declared on the assets form/statement and increased by 5% if not.

Assets & Liabilities Reporting



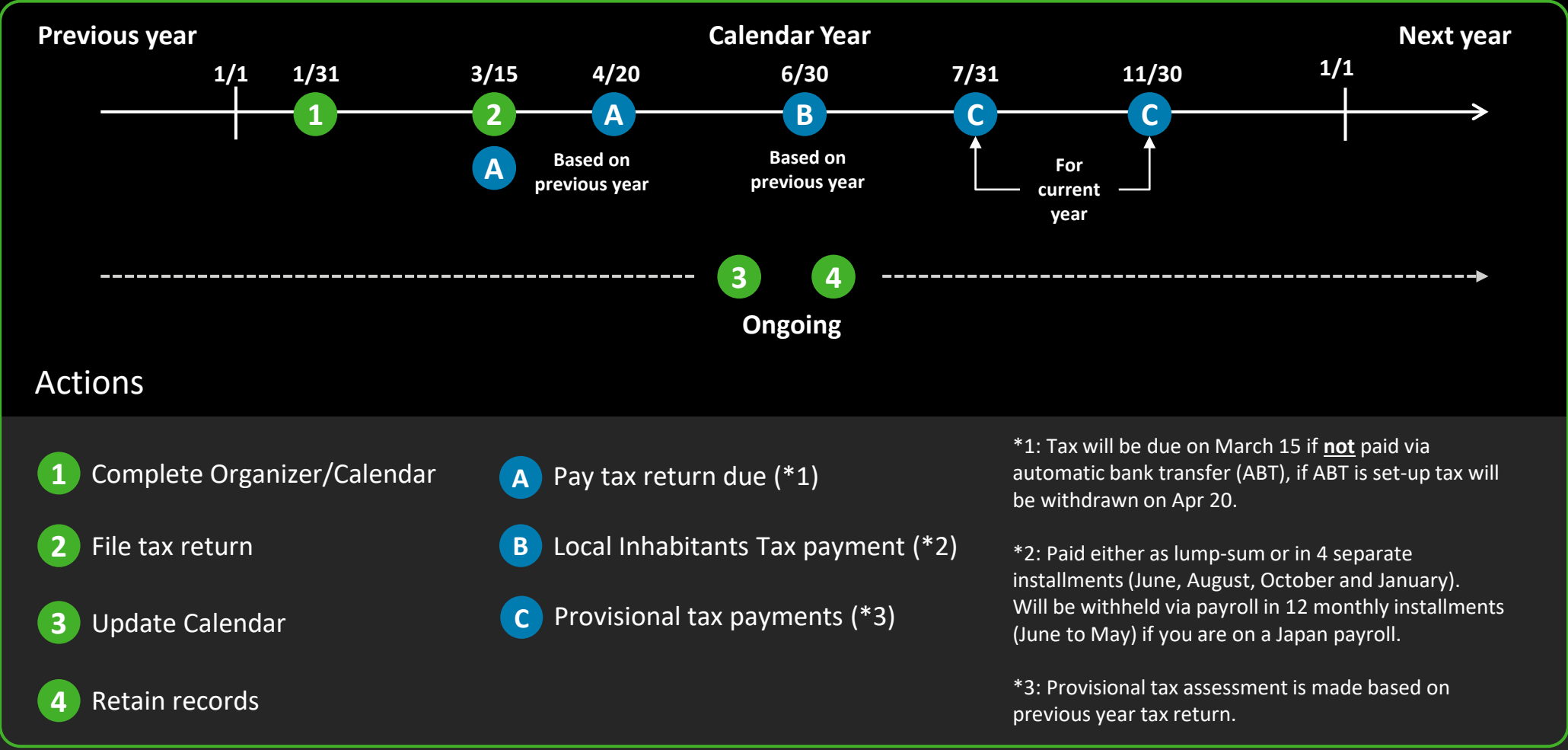
Note : With effect from 2023, regardless of income level, individuals holding global assets in the amount of JPY 1 Billion or more are required to report assets and liabilities statement by June 30 of the following year.

Foreign Assets Reporting

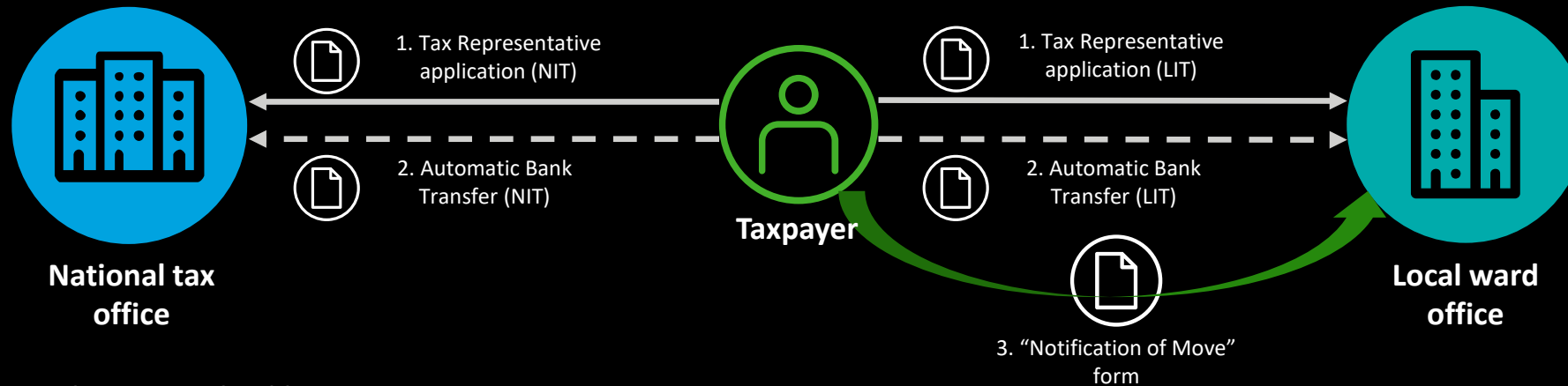


Compliance timeline and actions

- = Action items
- = Tax payments



Tax administration – Departure procedures



Pre-departure checklist

1. If you expect to have a tax return filing requirement, ensure a tax representative is appointed with your national tax office for National Income Tax (NIT) and ward office for Local Inhabitants Tax (LIT) purposes
2. If you expect future tax payments, set-up Automatic Bank Transfer (ABT) with your national tax office for National Income Tax (NIT) and ward office for Local Inhabitant Taxes (LIT) purposes for automatic tax withdrawal of trailing NIT and LIT tax liabilities
3. File a "Notification of Move" form with your local ward office within 14 days of your departure to ensure LIT is only assessed for the relevant years.

Tax Representative Background

- According to Japanese law, before leaving Japan you must either file your National tax return and pay the taxes or designate a Tax Representative that can handle your tax affairs on your behalf, if you have a tax return filing requirement.
- A tax representative is anyone who is a tax resident of Japan with an address in Japan
- The representative is not liable for the taxes personally
- Failure to file the form(s) or to file a national tax return for that year, before your leave, will result in penalties of 15-20% of the national tax due, if you have a tax return filing requirement.

Tax administration – Departure procedures (Deloitte Tax Representative)



Pre-departure checklist

1. File a "Notification of Move" form with your local ward office within 14 days of your departure to ensure LIT is only assessed for the relevant years.

Deloitte Tax Representative

- Deloitte will e-file the **NIT TaxRep** application towards the tax office on your behalf
- Deloitte will pre-fill the **LIT TaxRep** application on your behalf, ask for your signature and mail the signed form to the ward office

Tax Representative Background

- According to Japanese law, before leaving Japan you must either file your National tax return and pay the taxes or designate a Tax Representative that can handle your tax affairs on your behalf, if you have a tax return filing requirement.
- A tax representative is anyone who is a tax resident of Japan with an address in Japan
- The representative is not liable for the taxes personally
- Failure to file the form(s) or to file a national tax return for that year, before your leave, will result in penalties of 15-20% of the national tax due, if you have a tax return filing requirement.

Exit taxation

General information

What is exit tax?

- For certain residents departing Japan, they are subject to capital gains tax on unrealised financial assets as if they were disposed of on the date of departure from Japan.
- The fair market value on the exit date is used to calculate the gain/loss
- Local inhabitants tax does not apply for exit taxation
- 'Exit' refers to where the individual does not have a principle place of residence or temporary place of abode in Japan

Who has to pay exit tax?

- Taxpayers with certain assets of JPY 100,000,000 or more
- Individuals who have lived in Japan for 5 years or more in the last 10 years at the time of leaving Japan (excluding the period of time under certain working visa. Permanent residency and spousal visa are not eligible for exclusion)

What type of assets are subject to exit tax?

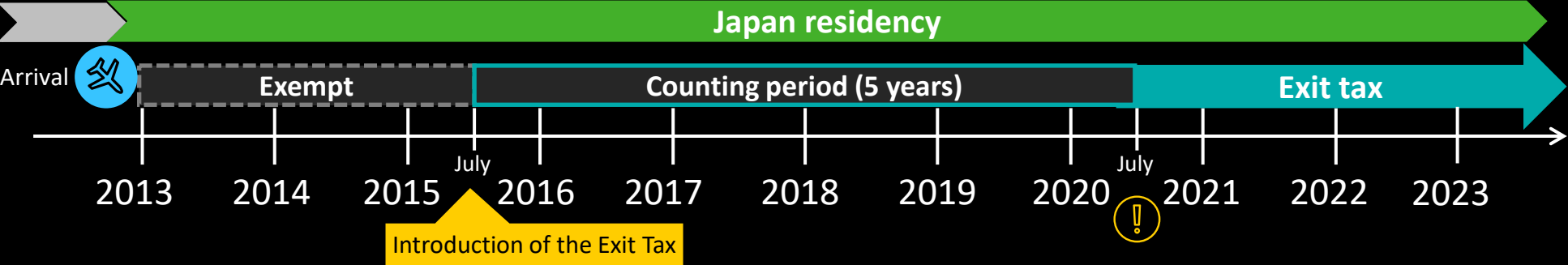
- Securities or ownership of *tokumei-kumiai* (form of 'silent partnership') contracts
 - Bonds, stocks, share options, RSUs, investment trusts etc.
- Unsettled credit transactions
- Unsettled derivative transactions

Exit taxation

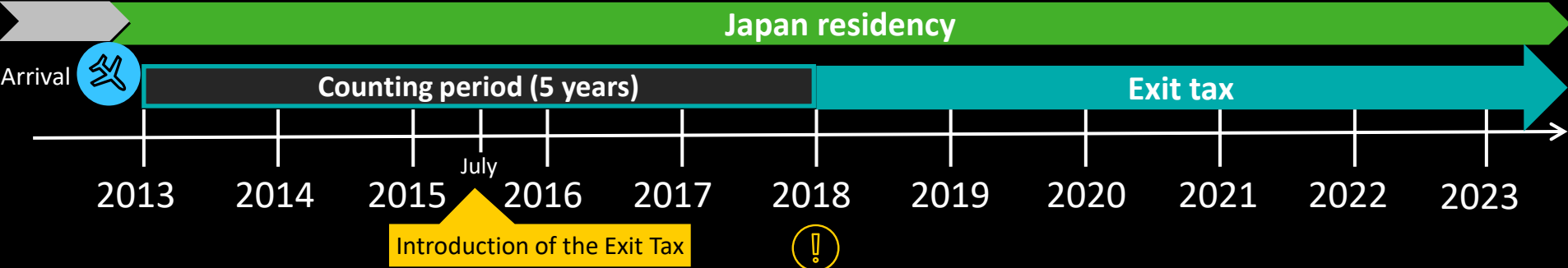
Assessment examples

Note:
Foreign nationals on a regular working visa, who do not hold a permanent-resident or spousal visa, are generally not subject to exit taxation in Japan.

Case 1: Foreign national, spousal visa/permanent resident visa (table 2*)





Case 2: Japanese national



*Listed in the appendix of the Japanese *Immigration Control and Refugee Recognition Act*.

Inheritance and gift taxation

Overview

 Taxation on both domestic and foreign assets  Taxation on domestic property only

Donor \ Recipient		Domestically domiciled		No domestic address		
			Temporary resident* ¹	Has Japanese nationality		Other nationality
				Has had an address within 10 years	No address within 10 years	
Domestically domiciled						
	Temporary resident gift* ¹					
No domestic address	You have an address within 10 years					
	Non-Japanese long-term residents* ²					
	Temporary visitor* ³					
	No address within 10 years					

Domicile: Base of one's living, based on the following facts: (1) whether permanent residency has been granted, (2) whether the person is residing in Japan, (3) the presence of family in Japan, (4) the presence of property in Japan, (5) employment in Japan, etc.

*1: A person who is staying in Japan under the status of residence listed in Appended Table 1 of the Immigration Control Act and who has lived in Japan for not more than 10 years within 15 years before the grant.

*2: A foreign national who has been domiciled in Japan within the past 15 years before departure for a total period of more than 10 years and for whom 2 years have elapsed since departure (only for gift tax).

*3: An alien who has been domiciled in Japan within 15 years prior to his/her departure for a total of 10 years or less (only for gift tax).





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