

# Doing Business in Japan

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## Foreword

Japan remains one of the world's most compelling destinations for international business—a major economy with advanced technological capabilities and one of the world's most sophisticated consumer markets.

At the same time, doing business in Japan comes with its own set of complexities. Unique business practices, intricate tax and labor regulations, and cultural and language differences can make the journey feel uncertain. "Where do we even begin?" "Who can we trust?" These are questions we hear time and again from companies taking their first steps into the Japanese market.

At RSM in Japan, we begin by listening. Our role is to help you navigate these challenges with clarity and confidence, working alongside you to find practical solutions tailored to your needs. Through close collaboration among professionals across our member firms throughout Japan, we provide one-stop support company incorporation, accounting, tax, labor, and immigration support. Drawing on RSM International's global network, we deliver seamless cross-border support to help you align your global ambitions with the realities of operating in Japan.

What matters most to us is not simply completing procedures. We are here for the long term, supporting your business as it takes root in Japan and grows into something enduring.

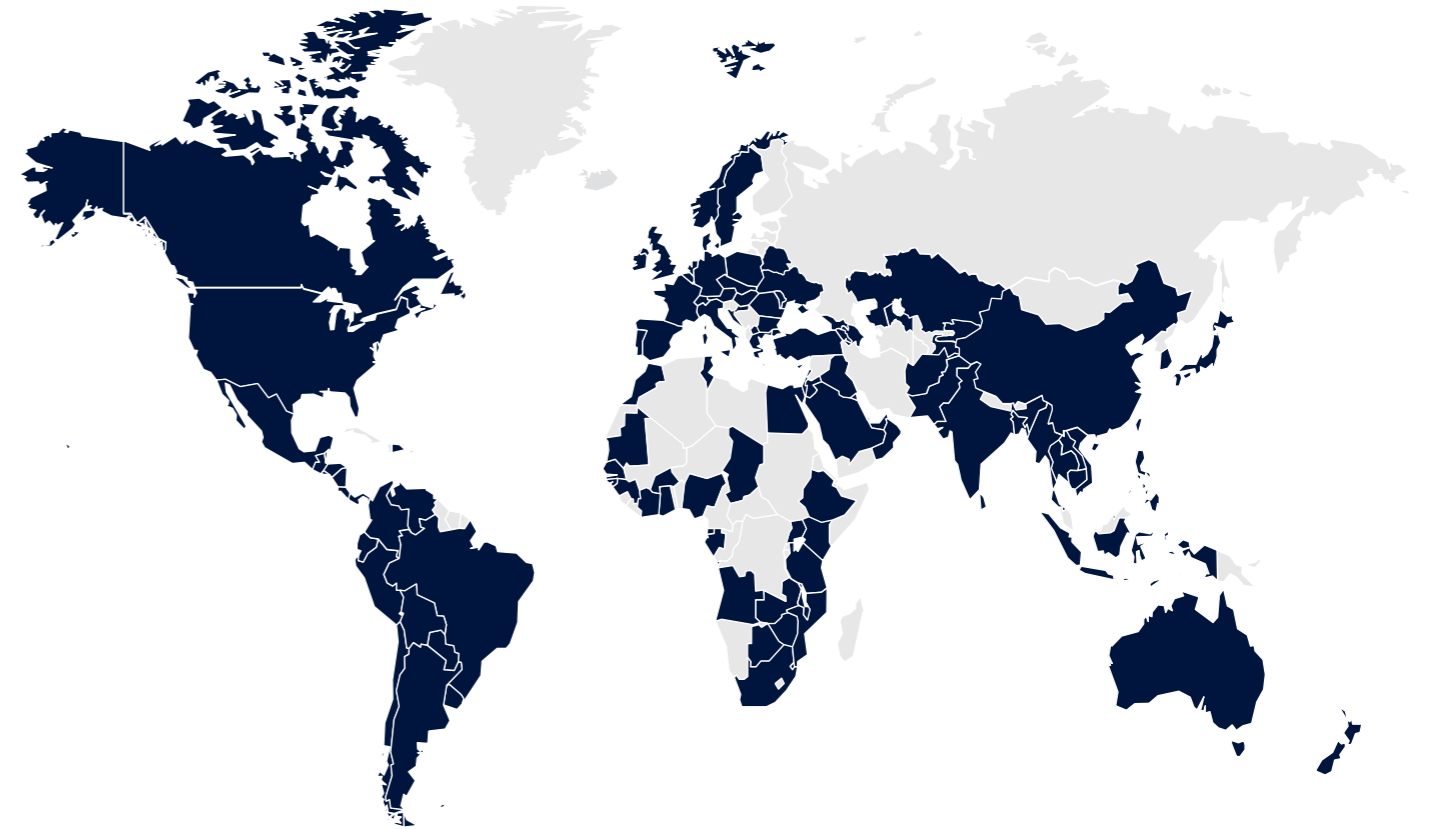
This guide brings together the knowledge and on-the-ground experience of RSM in Japan. Whether you are exploring Japan for the first time or are already established here, we hope it becomes a trusted resource as you navigate the opportunities ahead.

*Experience RSM and The Power of Being Understood.*

## About RSM

RSM is one of the world's largest networks of independent audit, tax and consulting firms, with a presence in over 120 countries and more than 500 offices worldwide. With a global team of 56,000 professionals, RSM member firms serve clients ranging from dynamic mid-market businesses to large multinational corporations.

RSM is a powerful Network of assurance, tax and consulting experts with offices all over the world. As an integrated team, we share skills, insight and resources, as well as a client-centric approach that's based on a deep understanding of your business. This is how we empower you to move forward with confidence and realize your full potential.



## About RSM in Japan

RSM in Japan comprises two independent professional firms that are members of the RSM network in Japan, together with its correspondent firm. With a combined team of more than 430 professionals, we can provide an integrated support to international and domestic clients across a broad range of services.

**RSM Seiwa** is the dedicated assurance firm providing audit and assurance services, IPO support, accounting consulting, internal audit and SOX compliance, risk advisory, and financial due diligence.

**RSM Shiodome Partners** provides a comprehensive suite of non-assurance professional services, integrated with business process outsourcing (BPO) capabilities across multiple service lines. Our expertise spans accounting and tax advisory, financial due diligence, and risk management. Additionally, we support organizations with payroll, HR and labor advisory, immigration and global mobility, corporate establishment, regulatory compliance, and cross-border advisory services.

RSM in Japan also works in close collaboration with its correspondent firm, **Tokyo Kyodo Accounting Office (TKAO)**, which specializes in tailor-made accounting, tax and financial consulting services with strengths in finance, cross-border business development, transfer pricing and customs advisory.

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# Part I: General Business Environment

# Chapter 1: Introduction — Japan

## 1.1 Geography

Japan lies just off the eastern coast of the Asian continent and consists of four major islands—Hokkaido, Honshu, Shikoku, and Kyushu—as well as numerous smaller islands, forming an arc-shaped archipelago that extends from north to south.

Japan's total land area is 377,976 square kilometers. Forests cover 67% of Japan's land area, farmland 13%, and residential land 5%, with roads, rivers, and other uses accounting for the remainder. Mountains extend along the middle of the long narrow archipelago, dividing it into two sides, one facing the Pacific Ocean and the other the Sea of Japan. Generally, rivers are short and fast-flowing.

As a country located on the Pacific Ocean's "Ring of Fire," Japan has many volcanoes, both active and dormant, and regularly experiences earthquakes. Monitoring and responding to seismic activity are a major area of research and infrastructure investment.

## 1.2 Climate

Temperatures vary widely by region, ranging from subarctic to subtropical. The general climate, except for part of Hokkaido in the north and some of the southernmost islands, is temperate with seasonal winds. Japan has four well-defined seasons. Apart from Hokkaido, the summers are hot and humid, preceded by a rainy season from mid-June through July, and followed by a typhoon season lasting through October. Autumn and spring are mild and pleasant. Winter is quite cold in some regions, with strong seasonal winds and heavy snowfall on the Sea of Japan side. The annual mean temperature is about 23°C in Okinawa, 16°C in Tokyo, and around 10°C in Sapporo (Hokkaido). Rainfall is abundant, ranging from roughly 1,000 to over 3,000 millimeters annually depending on the region. Typhoons and heavy storms are not uncommon.

## 1.3 Natural Resources

Japan is often described as a resource-poor country in terms of fossil fuels and mineral resources. Domestic reserves of oil, natural gas, and coal are limited, and the country relies heavily on imports for its energy needs. However, Japan has substantial forest resources, relatively abundant freshwater supplies, and significant marine resources.

In recent years, Japan has also advanced deep-sea resource exploration. Near Minamitorishima Island, within Japan's exclusive economic zone, researchers have identified significant rare earth-bearing seabed sediment deposits, with estimated resources equivalent to over 16 million tons of rare earth oxides. These efforts are part of Japan's broader strategy to strengthen supply chain resilience for critical minerals used in electric vehicles, renewable energy, and advanced electronics.

## 1.4 Population

Japan's total population was approximately 123 million as of April 2025, according to the Statistics Bureau of Japan, making it one of the world's most populous countries. The population peaked at approximately 128 million around 2008–2010 and has been declining ever since.

This demographic contraction, driven by a very low fertility rate of approximately 1.1–1.2 children per woman and a rapidly aging population, poses significant long-term economic and social challenges, including labor shortages, rising healthcare and social security costs, and pressure on public finances.

Japan's population density is approximately 330–340 people per square kilometer, one of the highest among major developed economies.

## 1.5 Transportation

### Roads and Rail

Japan has one of the most efficient public transportation systems in the world, supported by a well-developed network of roads and railways connecting major cities. Japan's major islands are connected by bridges, tunnels, and ferry services.

The Shinkansen (bullet train) network connects major cities in Honshu, Kyushu, and Hokkaido. Subways are also an important mode of transportation in metropolitan areas such as Tokyo, Osaka, Nagoya, and Sapporo. Rail and subway systems are generally the most efficient means of transportation in major urban areas, while private cars, buses, and taxis may be more practical outside major cities.

In Japan, vehicles drive on the left-hand side of the road, as in the United Kingdom and Australia.

### Air Travel

Japan has an extensive domestic and international air transport network, with major international airports including Narita International Airport, Tokyo International Airport (Haneda), Kansai International Airport, and Chubu Centrair International Airport.

### Marine Travel

Marine transport remains important to Japan's economy, supporting both international trade and domestic logistics. Major ports include Tokyo, Yokohama, Nagoya, Osaka, and Kobe. Given Japan's long coastline, numerous regional ports and harbors also support passenger and cargo transportation.

## 1.6 Language

The national language of Japan is Japanese. English is increasingly used in international business and is widely supported in major cities, although Japanese remains the primary language for most business and administrative interactions.

Many major Japanese companies have employees who can communicate in English, particularly in international-facing functions. However, depending on the nature of the discussion and the parties involved, professional interpretation support may be beneficial, especially for negotiations, legal matters, and detailed technical discussions. Familiarity with the Japanese language and business culture can also help facilitate smoother communication and stronger business relationships.

## 1.7 Currency

Japan's currency is the Japanese yen (JPY, ¥). Coin denominations are ¥1, ¥5, ¥10, ¥50, ¥100, and ¥500. Banknote denominations are ¥1,000, ¥2,000, ¥5,000, and ¥10,000, although the ¥2,000 note is rarely seen in everyday circulation. New banknote designs were introduced in 2024, while previous designs remain legal tender.

## 1.8 Government

### The Constitution of Japan

The Constitution of Japan, which replaced the Constitution of the Empire of Japan (the Meiji Constitution), was promulgated on November 3, 1946, and came into effect on May 3, 1947. It consists of 11 chapters and 103 articles and is based on three fundamental principles: popular sovereignty, pacifism, and respect for basic human rights.

The Constitution defines the Emperor as the symbol of the State and of the unity of the people. The Emperor has no powers related to government affairs and performs only those acts in matters of state as provided for in the Constitution.

Japan's constitutional system is a democratic framework based on the separation of powers. Legislative power is vested in the Diet, executive power in the Cabinet, and judicial power in the courts, with the Supreme Court serving as the highest judicial authority.

### The Diet

The Diet (Kokkai) is Japan's national legislature and the highest organ of state power. It is the sole legislative body, responsible for proposing constitutional amendments, approving the national budget, ratifying treaties, and designating the Prime Minister.

The Diet consists of the House of Representatives (Shugiin), the lower house, and the House of Councillors (Sangiin), the upper house. Japan's political system is a parliamentary system, similar in structure to the British model rather than the American presidential system.

### The Cabinet

The Cabinet consists of the Prime Minister and Ministers of State and is collectively responsible to the Diet. The Prime Minister must be a member of the Diet and, in practice, is typically selected from the House of Representatives.

The Prime Minister has the authority to appoint and dismiss Ministers of State. All ministers must be civilians, and a majority of them must be members of the Diet.

### The Supreme Court

The Supreme Court is Japan's highest court and the court of final appeal. It has the authority to determine the constitutionality of laws, regulations, administrative actions, and other official acts.

Its decisions serve as authoritative judicial precedent, and it oversees the appointment of lower court judges.

### Local Government

For local administrative purposes, Japan is divided into 47 prefectural-level jurisdictions, consisting of one metropolis (Tokyo-to), one regional prefecture (Hokkaido-do), two urban prefectures (Osaka-fu and Kyoto-fu), and 43 prefectures (Ken).

Each prefectural jurisdiction has its own governor (Chiji) and elected assembly. Below the prefectural level, municipalities are classified as cities (Shi), towns (Machi or Cho), and villages (Mura).

## 1.9 Olympics and Other Events

Japan has extensive experience hosting major international events, most notably the Olympic Games. The 1964 Tokyo Summer Olympics marked Japan's historic postwar return to the global stage, while the 2020 Tokyo Games (held in 2021) were successfully staged under unprecedented circumstances during the COVID-19 pandemic. Japan has also hosted G7 Summits, FIFA World Cup tournaments (co-hosted in 2002), and World Expositions. Most recently, Japan hosted Expo 2025 Osaka, Kansai, further highlighting its role as a venue for major global events.



# Chapter 2: Government Policies Affecting Business

## 2.1 Business Regulation Framework

### Overview

Japan regulates business through a combination of legislation, administrative rules, and regulatory guidance, covering areas such as corporate governance, taxation, employment, competition law, foreign investment, consumer protection, data privacy, environmental compliance, and sector-specific licensing.

### Key Government Authorities

Business regulation in Japan is administered by various ministries and regulatory agencies. Key authorities include the Ministry of Economy, Trade and Industry (METI), which oversees industrial policy, trade, and certain commercial regulations; the Ministry of Finance (MOF), responsible for fiscal policy and customs administration; the Financial Services Agency (FSA), which regulates financial institutions and capital markets; the Ministry of Justice, which governs corporate legal frameworks and company registration; and the Ministry of Health, Labour and Welfare (MHLW), which regulates employment and labor matters.

Other important authorities include the Japan Fair Trade Commission (JFTC), which enforces competition law; the Consumer Affairs Agency, which oversees consumer protection; the Personal Information Protection Commission (PPC), responsible for data privacy compliance; and the Ministry of the Environment, which administers environmental regulations.

### Administrative Guidance

Japan's regulatory system is grounded in formal law. In certain industries, however, administrative guidance and consultation with relevant authorities also influence how businesses approach compliance in practice.

## 2.2 Competition Law

### Anti-Monopoly Act

Japan's competition law framework is primarily governed by the Anti-Monopoly Act (Dokusen Kinshi Ho, AMA), which is enforced by the JFTC. The AMA is designed to promote fair and free competition and applies to a broad range of business activities, including mergers and acquisitions, distribution arrangements, joint ventures, pricing practices, and other commercial conduct.

The AMA prohibits anti-competitive conduct such as cartels, bid-rigging, private monopolization, and certain unfair trade practices. Violations may result in administrative orders, monetary surcharges, civil claims, and, in serious cases, criminal penalties.

A business practice of importance in Japan is the restriction on abuse of a superior bargaining position. This regulation prevents a dominant market player from using its leverage to impose unfair terms on a counterparty.

### Digital Platform Regulation

Japan has also strengthened competition regulation in digital markets. In 2024, the Act on Promotion of Competition for Specified Smartphone Software was enacted, introducing an ex-ante regulatory framework for certain digital platform operators in areas such as mobile operating systems, app distribution, browser access, and payment systems.

Businesses engaging in strategic partnerships, acquisitions, distribution arrangements, or digital platform activities in Japan should carefully assess compliance with Japanese competition law requirements.

## 2.3 Intellectual Property Protection

### Overview

Japan maintains a well-developed intellectual property (IP) protection framework covering patents, trademarks, design rights, and copyrights. Protecting IP is an important consideration for businesses entering the Japanese market, particularly in technology, manufacturing, life sciences, consumer products, and branded businesses.

### Patents

Patent rights in Japan are administered by the Japan Patent Office (JPO). Patent protection generally lasts for 20 years from the filing date, subject to limited extensions in certain sectors, such as pharmaceuticals.

### Trademarks

Trademarks are registered through the JPO and are protected for 10 years from the date of registration. Trademark registrations may be renewed indefinitely upon application.

### Design Rights

Design rights protect the visual design of products and are also administered by the JPO. Protection generally lasts for 25 years from the filing date.

### Copyrights

Copyright protection arises automatically upon creation of an eligible work and generally continues for 70 years after the death of the author, subject to certain statutory exceptions.

### Practical Considerations

Japan is a member of major international IP treaties and maintains a legal framework broadly aligned with international standards. Businesses should secure appropriate IP protection in Japan at an early stage, particularly where local registration is required.

## 2.4 Trade and Customs

### Overview

Japan maintains a generally open trading environment, though certain imports and exports are subject to regulatory controls, licensing requirements, and customs procedures. Depending on the specific goods in question, multiple government authorities may be involved, including the MOF, the METI, the MHLW, and the Ministry of Agriculture, Forestry and Fisheries.

### Import Controls

Imports into Japan are subject to customs clearance, product-specific regulations, quarantine requirements, and licensing procedures, depending on the type of goods involved. Regulated products may include food, pharmaceuticals, medical devices, chemicals, and certain industrial products.

Many businesses rely on customs brokers, import agents, or local distributors to manage import procedures efficiently, particularly during the initial stages of market entry.

### Export Controls

Japan maintains export control regulations for certain goods, technologies, and sensitive products, especially those relating to national security, strategic technologies, and international sanctions compliance. Businesses engaged in cross-border trade should comply with applicable export control requirements.

### Tariffs and Customs Procedures

Customs duties and import procedures are administered by Japanese customs authorities under the MOF. Tariff treatment depends on the classification, origin, and nature of imported goods, and Japan applies international customs classification standards consistent with global trade practices.

## 2.5 Consumer Protection

### Overview

Japan maintains a well-established consumer protection framework designed to promote fair business practices and protect consumers in commercial transactions. Businesses operating in Japan, particularly those dealing directly with consumers, should be aware of applicable legal obligations relating to advertising, contract terms, product safety, and sales practices.

### Key Consumer Protection Laws

Key legislation includes the Consumer Contract Act, the Act against Unjustifiable Premiums and Misleading Representations, the Act on Specified Commercial Transactions, and the Product Liability Act. General contractual principles under the Civil Code also apply.

These laws regulate areas such as unfair contract terms, misleading advertising, sales practices, product liability, and consumer cancellation rights.

### Consumer Rights and Business Compliance

Japan provides consumer protections in areas such as cooling-off rights for certain transactions, restrictions on misleading or aggressive sales practices, and liability for defective products. Consumer protection regulations have continued to evolve, particularly in response to e-commerce, subscription-based business models, and digital marketing practices.

Companies with consumer-facing operations must ensure that their contracts, advertising, sales processes, and customer communications comply with applicable Japanese consumer protection requirements.

## 2.6 Environmental and Sustainability Regulations

### Overview

Japan has established a comprehensive environmental regulatory framework governing areas such as waste management, air and water pollution, chemical substances, soil contamination, and environmental reporting. Businesses operating in Japan may be subject to environmental compliance requirements depending on the nature and scale of their operations.

### Environmental Compliance

Key legislation includes the Basic Environment Law, the Waste Management and Public Cleansing Act, the Soil Contamination Countermeasures Act, and other sector-specific environmental regulations. Certain business activities may require permits, notifications, environmental assessments, or ongoing compliance obligations.

Companies in manufacturing, logistics, construction, chemicals, energy, and other environmentally sensitive industries should pay particular attention to applicable environmental regulations.

### Sustainability and Climate Policy

Japan has continued to strengthen its sustainability and climate-related policy framework, including its commitment to achieving carbon neutrality by 2050. Businesses may increasingly face regulatory expectations relating to carbon reduction, energy efficiency, emissions management, supply chain sustainability, and environmental disclosure.

For larger businesses and certain listed companies, sustainability-related reporting and governance expectations have also become more important.

## Chapter 3: Foreign Exchange and Investment Controls

### 3.1 Overview

Japan maintains a generally open and liberal regime for foreign exchange transactions and cross-border investment. The principal legislation governing foreign exchange transactions, foreign trade, and certain foreign direct investment activities is the Foreign Exchange and Foreign Trade Act (Gaikoku Kawase Oyobi Gaikoku Boeki Ho, FEFTA), originally enacted in 1949 and substantially liberalized through major reforms in 1998.

While routine foreign exchange transactions are generally unrestricted, the FEFTA has been progressively strengthened in areas relating to national security, economic security, and strategic investment screening. As a result, compliance with applicable notification and reporting requirements remains an important consideration for foreign companies doing business in or investing in Japan.

### 3.2 Foreign Exchange Transactions

In general, Japan does not impose exchange controls on ordinary foreign currency transactions. Cross-border payments, remittances, loans, deposits, and securities transactions between residents and non-residents are, in principle, freely permitted.

However, certain transactions may be subject to prior notification or post-transaction reporting requirements under the FEFTA, typically through the Bank of Japan (BOJ) acting on behalf of the Ministry of Finance (MOF), depending on the nature of the transaction, the parties involved, or the jurisdictions involved.

Japan has also strengthened its regulatory framework in line with international standards relating to sanctions compliance, anti-money laundering, and transaction security.

### 3.3 Inward Foreign Direct Investment

Foreign direct investment (FDI) into Japan is generally welcomed; however, the FEFTA imposes a prior notification regime for investments in sectors considered sensitive from a national security, public order, public safety, or economic resilience perspective.

#### Overview of Foreign Investment Control Framework

An overview is provided in the table to the right.

#### Prior Notification Requirement

A foreign investor acquiring shares or voting rights in a Japanese company engaged in a designated business sector may be required to submit a prior notification to the MOF and the relevant competent ministry before completing the transaction.

Prior notifications are generally filed through the BOJ and are subject to regulatory review before the investment can proceed.

In recent years, Japan has expanded the scope of sectors subject to investment review as part of its broader economic security policy.

#### Designated and Core Business Sectors

Designated business sectors subject to foreign investment review include sectors such as:

- defense and related manufacturing;
- semiconductors, advanced materials, and certain technology sectors;
- telecommunications and cybersecurity;
- nuclear energy and electric power;
- financial services;
- aviation and maritime transport;
- pharmaceuticals and medical devices; and
- software and information processing services.

Certain sectors are further classified as core business sectors, where regulatory scrutiny is heightened and exemptions are more limited.

#### Overview of Foreign Investment Control Framework

Investment Scenario	Typical Requirement
<b>Investment in non-sensitive sectors</b>	Post-transaction reporting may apply
<b>Investment in designated business sectors</b>	Prior notification may be required
<b>Investment in core business sectors</b>	Enhanced review and more limited exemption availability
<b>Certain high-risk investor categories</b>	Prior notification may be required regardless of exemption availability

### 3.4 Payments and Currency

#### Payment Practices

Japan has historically been a cash-oriented society, although payment practices have evolved rapidly in recent years. According to the Ministry of Economy, Trade and Industry (METI), the cashless payment ratio reached 42.8% in 2024, exceeding the government's initial target of 40% by 2025 ahead of schedule. The ratio further increased to 58.0% in 2025, reflecting a revised methodology adopted by the METI that year. The government's longer-term target is 80%.

Major cashless payment methods include credit and debit cards, QR code payment platforms such as PayPay, Rakuten Pay, and d Payment, and prepaid IC cards such as Suica and PASMO, which are widely used for transportation and small retail purchases.

Despite this shift, cash remains commonly used in certain contexts, particularly among smaller businesses, in some regional areas, and for certain day-to-day transactions.

#### Business Payments

Bank transfers are the standard method for business-to-business payments in Japan. Domestic commercial transactions are commonly settled by bank remittance, and payment terms are typically agreed contractually between the parties.

Foreign businesses establishing operations in Japan will generally require a local bank account for ordinary business purposes. Account opening requirements vary by institution, but typically require local registration, identification documentation, and compliance with applicable anti-money laundering and know-your-customer procedures.

### 3.5 Economic Sanctions Compliance

Japan participates in international economic sanctions regimes and implements them domestically, primarily through the FEFTA and related regulations. Japan has coordinated sanctions with the G7 and other international partners, including in response to Russia's invasion of Ukraine.

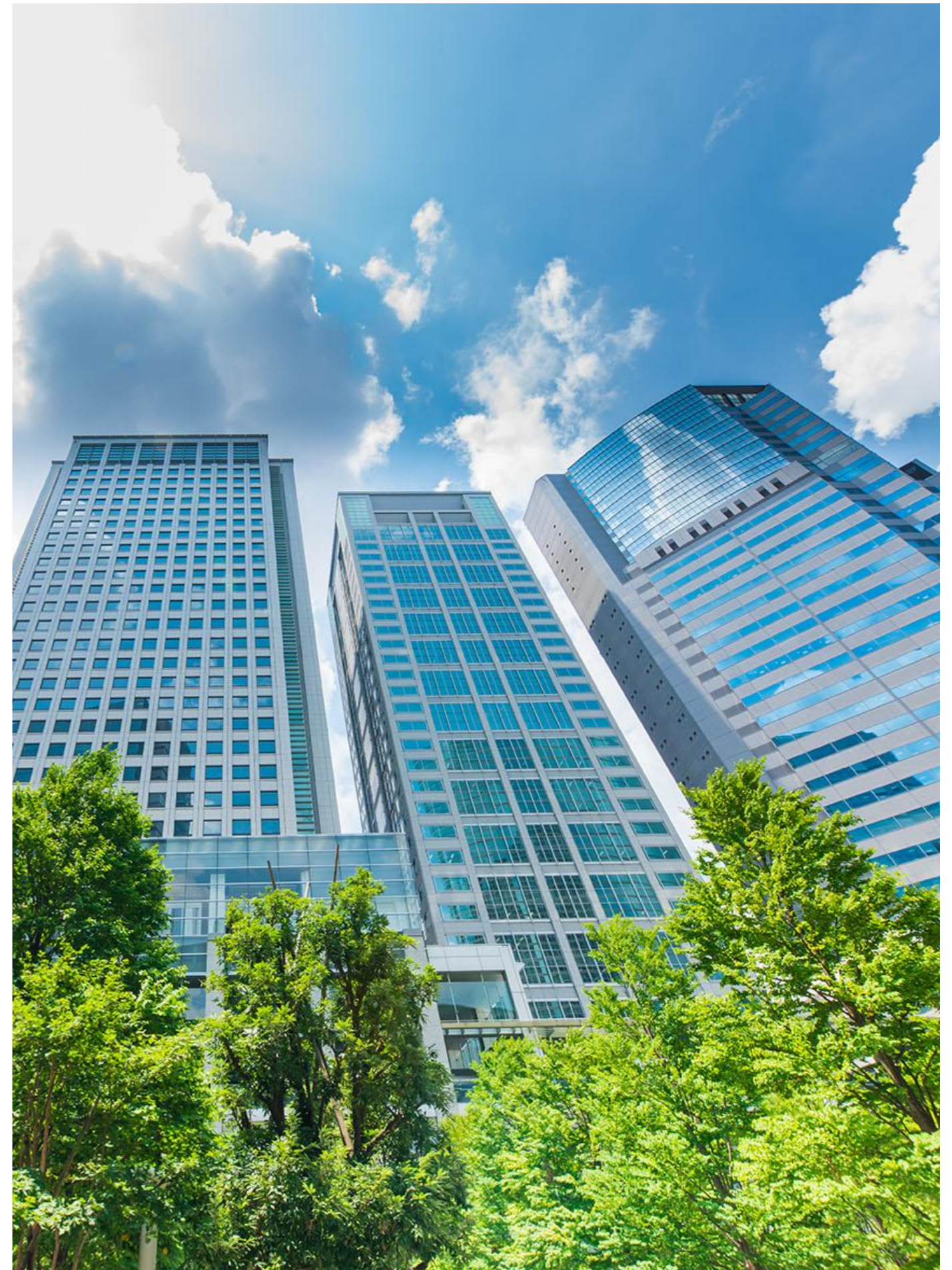
Such measures may include asset freezes, restrictions on transactions with designated individuals and entities, and prohibitions or licensing requirements relating to certain goods, technologies, and financial transactions.

#### Compliance Considerations

Key compliance considerations for businesses operating in Japan include:

- screening counterparties against applicable Japanese sanctions lists maintained by the MOF;
- observing restrictions on transactions involving sanctioned persons, entities, or jurisdictions;
- complying with applicable export control regulations administered by the METI; and
- fulfilling applicable notification or reporting obligations under Japanese law.

Foreign companies with Japanese subsidiaries, branches, or business operations should ensure that their sanctions compliance frameworks reflect applicable Japanese legal requirements, which may differ in scope and application from those in other jurisdictions, including the United States and the European Union.



## Chapter 4: Government Investment Incentives

### 4.1 General

Japan offers a range of investment incentives at both the national and local government levels to encourage business investment, innovation, regional development, job creation, and strategic industrial growth. Incentive programs are generally available to qualifying enterprises, including foreign-invested companies, depending on the nature, scale, and location of the investment.

Government support in recent years has increasingly focused on strategic sectors such as advanced manufacturing, semiconductors, digital transformation, green transformation, research and development, supply chain resilience, and regional revitalization.

Investment incentives generally fall into several categories, including tax incentives, subsidies, financial support programs, and practical market entry assistance.

### 4.2 Taxation Incentives

A variety of tax-based incentives support investment, innovation, regional development, and strategic business activities. Available incentives include tax credits, accelerated depreciation, special deductions, and reductions or exemptions from certain local taxes, based on the nature and location of the investment.

Tax incentives are commonly provided in areas such as research and development, energy efficiency, digital transformation, green investment, advanced manufacturing, and regional business expansion. In some cases, local governments may also offer reductions in fixed asset tax, real estate acquisition tax, or other local taxes to encourage business establishment or expansion within their jurisdictions.

The availability and scope of tax incentives depend on the applicable legislation, industry, investment structure, and qualification criteria in effect at the relevant time.

### 4.3 Subsidies

Japan provides a broad array of subsidy programs to support business investment, innovation, employment creation, and strategic industrial development. Available subsidies vary by industry, project type, investment scale, and location.

These programs support initiatives including capital investment, R&D, energy efficiency, digital and green transformation, supply chain resilience, and regional expansion. Local governments may offer additional subsidies to attract offices, factories, and logistics facilities to their jurisdictions, and certain programs specifically target employment creation, workforce development, and small and medium-sized enterprises (SMEs).

As subsidy programs are policy-driven and subject to periodic revision, businesses should confirm the availability and eligibility requirements of relevant programs at the time of investment planning.

### 4.4 Other Financial Incentives

Beyond tax incentives and subsidies, Japan offers additional financial support through government-affiliated institutions such as the Development Bank of Japan. These institutions provide financing for projects aligned with policy priorities including regional development, innovation, environmental sustainability, infrastructure, and industrial competitiveness. Credit guarantee programs are also available, particularly for SMEs, startups, and businesses pursuing qualifying strategic investments.

Terms and eligibility criteria vary by institution and program; businesses should confirm current requirements during the planning stage.

### 4.5 JETRO and Market Entry Support

The Japan External Trade Organization (JETRO) is a government-affiliated organization that promotes trade and investment between Japan and the international business community. One of its key roles is to support foreign companies considering investment or business expansion in Japan.

JETRO offers a range of support services for foreign investors, which may include market entry information, business matching support, temporary office space, regulatory guidance, and introductions to relevant professional service providers, government agencies, and local authorities.

In addition to JETRO, various regional and local government organizations provide practical support for foreign investors, including assistance with site selection, administrative procedures, recruitment, and access to local incentive programs.

Such support can be particularly valuable for companies establishing their initial presence in Japan.

## Chapter 5: Sources of Finance

### 5.1 Banking System

Japan has a well-developed and sophisticated banking system that plays a central role in corporate financing. Historically, bank financing has been the primary source of funding for Japanese businesses, although capital markets and alternative financing options have grown in importance.

The Bank of Japan (BOJ), Japan's central bank, is responsible for maintaining price stability and supporting the stability of the financial system. Its functions are broadly comparable to those of central banks in other major economies.

Japan's commercial banking sector includes three major banking groups—Mitsubishi UFJ Financial Group (MUFG), Sumitomo Mitsui Banking Corporation (SMBC), and Mizuho Financial Group—which provide a broad range of corporate banking services, including lending, trade finance, cash management, foreign exchange, and capital markets support.

In addition, regional banks continue to play an important role, especially for businesses operating outside major metropolitan areas and for small and medium-sized enterprises (SMEs). Foreign banks also maintain a presence in Japan, primarily in corporate banking, investment banking, and cross-border financial services.

### 5.2 Bank Financing

Bank financing remains a primary source of corporate funding in Japan, particularly for working capital, capital expenditure, and general business operations. Commercial banks offer a wide range of financing products, including revolving credit facilities, term loans, overdraft arrangements, trade finance, cash management services, and foreign exchange support.

For established businesses, lending decisions are typically based on factors such as financial performance, business plans, available security, group support, and banking relationships. SMEs may also have access to financing supported by public credit guarantee programs.

Foreign-invested companies operating in Japan may generally access local bank financing, although lending terms and onboarding requirements will vary based on the borrower's operating history, financial profile, ownership structure, and relationship with the lending institution.

### 5.3 Capital Markets

Well-developed capital markets also provide alternative sources of financing for businesses, especially larger corporations and growth-oriented companies. Equity and debt financing are available through public and private capital market transactions, based on the company's size, stage of development, and financing objectives.

The Tokyo Stock Exchange, part of Japan Exchange Group, is Japan's principal securities market. With approximately 3,900 listed companies, it is one of the largest stock exchanges in the world by number of listings and market capitalization. Following its market restructuring, the TSE currently operates the Prime Market, Standard Market, and Growth Market, each designed for companies with different profiles and governance standards.

In addition to equity financing, Japan maintains an active bond market for both public and corporate debt issuance. Capital market financing is generally more accessible to established businesses with appropriate scale, governance structures, and financial disclosure capabilities.

### 5.4 Government-Related and Policy Finance

In addition to commercial financing, Japan has a range of government-related financial institutions that support businesses through policy-based financing programs. These institutions may provide funding for projects aligned with public policy objectives, including innovation, infrastructure, environmental sustainability, regional development, and industrial competitiveness.

The Development Bank of Japan is one of Japan's principal policy-based financial institutions and provides financing and advisory support for projects that contribute to economic development and long-term growth. Other public financial institutions, including the Japan Finance Corporation (JFC), also support business financing, particularly for SMEs, startups, and certain strategic sectors.

Government-related financing programs may complement private sector funding where long-term investment horizons, strategic policy alignment, or risk-sharing considerations are relevant.

### 5.5 Alternative Financing

In addition to traditional bank and capital market financing, alternative sources of funding have grown in importance in Japan, notably for startups, high-growth businesses, and specialized investment projects.

These sources may include venture capital, private equity, mezzanine financing, project finance, asset-based financing, and other structured financing solutions, depending on the nature of the business and funding requirements.

Japan's startup and innovation ecosystem has continued to develop, with increasing support from private investors, corporate venture capital, financial institutions, and public initiatives aimed at fostering entrepreneurship and innovation.

The availability and suitability of alternative financing will depend on the company's stage of development, financial profile, industry sector, and investment strategy.



Part II :  
Incorporation,  
Company Management & License

## Chapter 6: Incorporation

### 6.1 Introduction

The Companies Act of Japan (Kaisha Ho), together with related regulations and commercial registration procedures administered by the Ministry of Justice, provides the principal legal framework for the incorporation, registration, and operation of companies and other business forms in Japan.

Foreign businesses entering the Japanese market generally establish operations through one of three structures: a Japanese subsidiary, a branch office, or a representative office. Each structure serves a different purpose. A subsidiary provides a separate Japanese legal entity, a branch office enables the foreign company to conduct business in Japan without incorporating a separate entity, and a representative office is limited to preparatory or liaison activities.

The appropriate structure will depend on the intended business activities, liability profile, governance requirements, tax considerations, regulatory requirements, and operational needs. In practice, subsidiaries such as a Kabushiki Kaisha (KK) or Godo Kaisha (GK) are frequently used where the foreign business intends to build a continuing commercial presence in Japan.

### 6.2 Types of Business Entities

Foreign businesses may choose from several legal structures, based on the intended scope of activities, governance preferences, tax considerations and operational objectives.

The most commonly used structures are outlined to the right.

Although the KK and GK are both limited liability entities, they differ in governance structure, market perception, documentation requirements and administrative flexibility. The choice between these structures will depend on factors such as commercial expectations, group governance policies, investor requirements and the intended scale of Japanese operations.

### 6.3 Common Structures for Foreign Businesses

Foreign businesses typically establish a presence in Japan through a representative office, a branch office, or a subsidiary. These structures are not interchangeable, as the permitted activities, legal consequences, and practical suitability differ significantly.

#### Representative Office

A representative office is generally used for limited preparatory or support activities, such as market research, information gathering, liaison activities and business development support. It is not designed for revenue-generating business activities and may not enter into commercial transactions in its own name.

Because a representative office is not a separate legal entity and is not registered as a commercial presence in the same manner as a branch office or subsidiary, its practical functionality is limited. It is therefore most suitable where the foreign business is assessing the Japanese market before commencing full operations.

### Overview of Common Business Structures

Structure	Typical Characteristics
<b>Kabushiki Kaisha (KK)</b>	A traditional Japanese corporation with strong market recognition and formal governance structure.
<b>Godo Kaisha (GK)</b>	A flexible limited liability structure broadly comparable to a limited liability company (LLC), often used for privately held or wholly owned structures.
<b>Branch Office</b>	A registered Japanese business presence of a foreign company, without separate legal personality from the foreign head office.
<b>Representative Office</b>	A non-commercial presence for preparatory, liaison, market research or information-gathering activities only.

#### Branch Office

A branch office allows a foreign company to conduct business activities in Japan without incorporating a separate Japanese legal entity. A branch office is treated as an extension of the foreign head office, not as an independent legal entity. As a result, the foreign head office generally remains legally responsible for obligations arising from the branch office's Japanese operations.

This form of business presence may be appropriate where the foreign business wishes to operate directly in Japan while maintaining the legal identity of the foreign company. Prior to commencing operations, branch registration and related regulatory procedures must be completed. Depending on the nature of the business, additional tax, licensing, or regulatory filings may also be required.

#### Subsidiary

A subsidiary is the most common structure for foreign businesses establishing a long-term commercial presence in Japan. A subsidiary is incorporated as a separate Japanese legal entity, and the foreign shareholder's liability is generally limited to the amount of its investment in the subsidiary.

The most common subsidiary forms are the KK and the GK. A KK is often preferred where stronger market recognition, more formal governance or future investment flexibility is important. A GK is often suitable for simpler privately held structures, including wholly owned subsidiaries, where flexibility and administrative efficiency are priorities.

In many cases, a subsidiary is the most practical structure for hiring employees, entering into contracts with Japanese customers or suppliers, opening bank accounts, obtaining licenses, and building a long-term business presence in Japan.

## 6.4 Incorporation and Registration Procedures

The procedures for establishing a business presence in Japan differ by structure. In general, the process involves preparing incorporation or registration documents, appointing representatives, securing a registered address, making any required capital contribution, and completing filings with the relevant Legal Affairs Bureau and other authorities.

For a subsidiary, the typical process includes selecting the legal form, preparing constitutional and incorporation documents, obtaining any required notarization or certification, making the initial capital contribution, filing the incorporation registration, and completing post-incorporation tax, social insurance and labor-related notifications.

For a branch office, the process generally involves appointing a representative in Japan, preparing documentation concerning the foreign company and the branch, and filing the branch registration before commencing business operations. Documents issued outside Japan often require translation and, in some cases, notarization or legalization depending on the jurisdiction and the nature of the document.

In practice, foreign businesses commonly engage professional advisors, such as lawyers (bengoshi), judicial scriveners (shiho shoshi), administrative scriveners (gyosei shoshi), certified public tax accountants (zeirishi) or corporate service providers, to assist with establishment procedures, registration filings and regulatory compliance.

The overall timeline commonly ranges from approximately one to two months, but the actual schedule depends on the selected structure, readiness of corporate documents, notarization or certification requirements, internal approvals, regulatory considerations and practical matters such as the initial capital payment and bank account opening.

## 6.5 Post-Incorporation Requirements

Following incorporation or registration of a business presence in Japan, several practical, tax, labor, governance and operational steps are typically required before full business operations can commence.

The specific requirements will depend on the selected structure, industry, employee arrangements, and regulatory profile of the business.

### Typical Post-Incorporation Requirements

An overview is provided in the table to the right.

#### Tax Registration

Newly established entities are generally required to submit applicable tax notifications to the relevant national and local tax authorities. Based on the business activities and transaction profile, additional tax filings or registrations may be required.

#### Social Insurance and Labor Compliance

Businesses employing personnel in Japan are required to enroll in applicable social insurance and labor insurance systems and to establish appropriate payroll, employment contract and workplace compliance arrangements.

### Typical Post-Incorporation Requirements

Area	Typical Action
<b>Tax registration</b>	Filing corporate tax and other applicable tax notifications with the relevant tax authorities.
<b>Social insurance</b>	Enrolling in applicable employee social insurance schemes where required.
<b>Labor compliance</b>	Completing labor insurance registrations and establishing employment-related arrangements where employees are hired.
<b>Banking</b>	Opening operational bank accounts, subject to the relevant bank's onboarding and compliance procedures.
<b>Corporate governance</b>	Appointing officers, establishing internal governance arrangements, and maintaining statutory corporate records.
<b>Accounting and reporting</b>	Establishing bookkeeping, reporting, and compliance processes, including group reporting where relevant.
<b>Licensing and regulatory approvals</b>	Obtaining industry-specific permits, registrations or approvals before conducting regulated business activities.

#### Banking Arrangements

Opening a corporate bank account is often one of the most important practical steps following incorporation. Bank onboarding procedures vary by institution and are influenced by the ownership structure, business profile, source of funds, expected transactions and the bank's compliance review.

#### Corporate Governance and Administration

Post-incorporation administration includes maintaining corporate records, managing officer appointments, preparing internal approvals where necessary and complying with statutory corporate procedures.

#### Accounting and Operational Setup

Establishing accounting, bookkeeping, internal control, and reporting processes at an early stage is advisable, particularly where Japanese tax compliance, audit requirements or group reporting obligations are expected.

#### Licensing and Regulatory Requirements

Where the intended business operates in a regulated sector, permits, registrations or regulatory approvals must be considered before commercial operations begin. The timing and documentation requirements vary significantly by industry.

## Chapter 7: Company Management

### 7.1 Overview

The governance and management of Japanese companies are primarily governed by the Companies Act. The applicable governance framework and compliance requirements depend on the company's legal form, size, ownership structure, and whether it is privately held or publicly listed.

For most foreign businesses, the relevant corporate form is the Kabushiki Kaisha (KK), which is Japan's most widely recognized corporate entity and offers flexibility in how it is structured and managed depending on the company's characteristics and business objectives.

While Japanese corporate governance can be highly sophisticated for large or listed companies, governance arrangements for privately held companies are generally more streamlined.

### 7.2 Governance Structure of a Kabushiki Kaisha (KK)

The governance structure of a KK may vary depending on the size, ownership structure, and characteristics of the company. Privately held companies generally have greater flexibility in how they are governed, while larger or listed companies are subject to more extensive governance requirements.

At a basic level, a KK is governed through its shareholders and directors. Shareholders exercise key ownership rights, while directors are responsible for the management and operation of the company. It may also have a board of directors, auditors, accounting auditors, or committee-based oversight arrangements, as required or permitted under the Companies Act.

### 7.3 Directors and Management Responsibilities

A KK must have at least one director, and additional oversight bodies may be required based on the company's structure. Directors are responsible for managing the company and are expected to act in its interests in accordance with their legal duties.

Where a board of directors is established, management authority is generally exercised through the board and delegated executive management. In smaller privately held companies, governance arrangements are often simpler and involve fewer formal governance bodies.

Directors are subject to fiduciary and statutory duties under Japanese law, including duties of care and loyalty. Transactions involving conflicts of interest or competing activities may require appropriate internal approval and compliance procedures.

In practice, these expectations become more formal and extensive as companies grow in size, complexity, or public ownership.

### 7.4 Governance Models for Larger Companies

The Companies Act provides for a range of governance models, with requirements becoming more extensive for larger or publicly listed companies.

Depending on the company's size and structure, additional oversight mechanisms may include auditors, accounting auditors, audit and supervisory committees, or committee-based structures.

Listed companies and larger businesses are generally subject to enhanced governance, financial reporting, and oversight requirements, reflecting broader regulatory expectations and stakeholder accountability.

The governance structure selected should be aligned with the company's ownership profile, business scale, regulatory environment, and long-term management objectives.

## Chapter 8: Licensing and Regulatory Approvals

### 8.1 Introduction

Certain business activities in Japan are subject to licensing, permitting, or regulatory approval requirements in addition to general corporate establishment procedures. The applicable requirements vary depending on the nature of the business, the industry sector, and the regulatory framework governing the relevant activities.

Regulatory oversight may be exercised by different authorities, including national ministries, regulatory agencies, prefectural governments, and municipal authorities.

Foreign businesses entering regulated industries should address licensing requirements at an early stage of business planning, as certain approvals must be obtained before operations can commence.

### 8.2 Industry-Specific Licenses and Permits

Certain industries in Japan are subject to sector-specific licensing, registration, or approval requirements before business operations can commence.

Examples of regulated sectors include:

- **Financial services** — Banking, securities, insurance, payment services, and certain fintech activities are regulated by the Financial Services Agency (FSA);
- **Food and beverage businesses** — Restaurants, food manufacturing, and certain food handling businesses may require approvals from local health authorities (Public Health Centers), while liquor sales require separate licensing;

- **Construction and real estate** —

Construction businesses generally require licensing, while real estate brokerage activities are subject to registration and professional qualification requirements;

- **Employment and staffing services** —

Worker dispatching and employment placement businesses are subject to licensing or approval requirements;

- **Pharmaceuticals and medical devices** —

Manufacturing, importation, distribution, and sale of pharmaceuticals or medical devices are highly regulated under the Pharmaceuticals and Medical Devices Act (PMD Act);

- **Import/export of controlled goods and technologies** —

Certain goods, technologies, and strategic materials are subject to export/import control regulations under the Foreign Exchange and Foreign Trade Act (FEFTA); and

- **Education, childcare, and other regulated public-interest services** — may require authorization from competent authorities.

The following table provides selected examples of business licenses and permits in Japan, together with the relevant licensing authority and contact point.

Because regulatory requirements depend heavily on the exact business model and operational scope, a case-by-case assessment is often necessary.

#### Business Licenses and Permits in Japan

Business Type	Authorization	Contact Point
Restaurant	Prefectural Governor	Public Health Center
Liquor Store	Tax Office Chief	Tax Office
Construction Industry	MLIT or Prefectural Governor	Prefectural Office
Real Estate Business	MLIT or Prefectural Governor	Prefectural Office
Secondhand Shop, etc.	Public Safety Commission	Police Station
Charged Employment Placement Businesses	MHLW	Labor Bureau
General Motor Truck Transportation Business	MLIT or Transport Bureau	MLIT or Transport Bureau
Passenger Vehicle Transportation Business	MLIT	Transport Bureau
Travel Agency	MLIT	Transport Bureau
Inns, Hotels, etc.	Prefectural Governor	Public Health Center
Advanced Medical Device Sales Business	Prefectural Governor	Public Health Center
Worker Dispatching Business (Staffing)	MHLW	Public Employment Security Office
Private Vehicle Rental Business for Compensation	MLIT	Transport Bureau

\*Note: MLIT refers to the Ministry of Land, Infrastructure, Transport and Tourism; MHLW refers to the Ministry of Health, Labour and Welfare.

### 8.3 Application Procedures

Licensing and approval procedures vary by industry and competent authority. In most cases, the process involves identifying the applicable requirements, preparing supporting documentation, and submitting the necessary applications or notifications.

Required documentation may include corporate registration documents, business plans, organizational information, details of directors or responsible personnel, financial information, facility-related documentation, and evidence of professional qualifications, depending on the nature of the regulated activity.

In most industries, pre-consultation with the relevant authority is advisable before formal submission, especially where regulatory interpretation or business model classification may affect licensing requirements or other compliance obligations.

Processing timelines range from relatively straightforward administrative procedures to more extensive regulatory reviews that may take several weeks or months.

### 8.4 Ongoing Compliance and Renewal

Obtaining a license or regulatory approval is rarely the end of the compliance process. Ongoing reporting obligations, inspections, renewal requirements, and notifications of material changes may apply depending on the industry.

Such obligations include periodic regulatory filings, renewal applications, maintenance of qualified personnel, compliance with operational standards, and notification of changes relating to directors, business scope, ownership structure, or registered business locations.

Failure to comply with applicable licensing requirements may result in administrative sanctions, suspension of business activities, revocation of licenses, or other legal consequences, including criminal penalties in serious cases.

### 8.5 National Strategic Special Zones

Japan has established National Strategic Special Zones to promote economic growth, innovation, and foreign investment through regulatory reform and administrative flexibility in selected regions.

Depending on the applicable zone and policy framework, certain regulatory procedures or business requirements may be streamlined in designated sectors such as healthcare, education, urban development, startup visa requirements, and international business activities.

The practical relevance of such programs will depend on the specific business model, location, and regulatory objectives at the time of market entry.



A vibrant night scene featuring a city skyline across a body of water, with a massive display of colorful fireworks exploding in the dark sky. The fireworks are in various colors including blue, green, red, yellow, and purple. The city lights are visible in the background, and the water reflects the lights. A large blue graphic element, consisting of a series of overlapping squares, is positioned in the lower right and bottom center of the image.

Part III :  
Accounting, Taxation,  
Labor Regulations & Visa

# Chapter 9: Accounting

## 9.1 Introduction

Businesses operating in Japan must generally maintain accounting records and prepare financial statements in line with local legal, tax, and reporting requirements.

Japan's accounting framework is based primarily on Japanese Generally Accepted Accounting Principles (Japanese GAAP), together with applicable statutory reporting requirements. Additional reporting, audit, or disclosure obligations may apply based on the nature, size, and regulatory status of the entity.

For foreign investors, relevant considerations may include statutory bookkeeping, financial statement preparation, audit requirements, tax reporting alignment, and, where applicable, interaction with international accounting frameworks.

## 9.2 Accounting Framework in Japan

Japanese GAAP serves as the principal basis for financial reporting by most entities operating in Japan, with accounting standards developed by the Accounting Standards Board of Japan (ASBJ).

### Overview of Accounting Frameworks

An overview of each framework is provided in the table below.

#### Japanese GAAP

Privately held companies in Japan typically prepare financial statements in accordance with Japanese legal and accounting requirements.

#### Applicability by Entity Type

The applicable accounting framework differs by entity type, regulatory status, and reporting obligations. Listed companies and certain regulated entities are generally subject to broader financial reporting expectations than privately held companies.

### Overview of Accounting Frameworks

Framework	Typical Applicability
<b>Japanese GAAP</b>	Standard framework for most Japanese entities
<b>International Financial Reporting Standards (IFRS)</b>	Permitted for listed companies and certain other qualifying entities
<b>US GAAP</b>	Permitted for listed companies with FSA authorization; adoption has been declining
<b>Multinational group reporting frameworks</b>	Additional reporting requirements for consolidation or management reporting purposes

## International Accounting Frameworks

Japan also permits the use of certain international accounting frameworks, including IFRS and US GAAP, in qualifying circumstances.

As a result, multinational groups operating in Japan may need to consider how local statutory requirements interact with broader group reporting frameworks.

### Differences in Accounting Treatment

Accounting treatment may differ across frameworks in areas such as revenue recognition, asset valuation, impairment, lease accounting, foreign currency transactions, and deferred taxation.

For example, Japanese GAAP generally requires goodwill to be amortized over a specified period, whereas IFRS requires annual impairment testing instead of amortization. Such differences may affect reported financial results and warrant consideration when evaluating reporting obligations within a multinational group.

### Overview of Reporting Requirements

Entity Type	Typical Reporting Expectations
<b>Privately held companies</b>	Preparation of statutory financial statements and applicable corporate disclosures
<b>Listed / regulated entities</b>	Expanded public reporting, regulatory filings, audit, and disclosure obligations
<b>Multinational group entities</b>	Group consolidation, management reporting, and cross-border reporting requirements

## 9.3 Financial Reporting and Disclosure Requirements

Financial reporting and disclosure obligations vary by legal form, size, regulatory status, and ownership structure.

### Overview of Reporting Requirements

An overview is provided in the table below.

#### Statutory Financial Statements

Privately held companies are generally required to prepare statutory financial statements in accordance with applicable legal requirements. Certain financial information may also be subject to corporate disclosure requirements, depending on the company structure.

### Listed Company Reporting

Listed companies and other regulated entities are subject to more extensive public reporting and disclosure obligations under applicable securities and financial regulations. These may include annual and interim financial reporting, regulatory filings, and public disclosure through designated reporting systems.

### Group Reporting Requirements

Companies that are part of multinational groups may also need to prepare financial information for group consolidation, management reporting, or reporting under international accounting frameworks.

### Disclosure Expectations

The scope and complexity of these obligations vary by size, governance structure, financing arrangements, and regulatory status.

## 9.4 Audit and Internal Control Requirements

### Statutory Audit Requirements

Audit requirements in Japan depend on the size, legal form, and regulatory status of the entity. Certain companies are subject to statutory audit requirements under the Companies Act. Those with stated capital of JPY 500 million or more, or total liabilities of JPY 20 billion or more, are required to undergo an audit by an independent certified public accountant or audit firm.

### Financial Regulation Audit Requirements

Listed companies and other regulated entities may also be subject to audit requirements under applicable securities and financial regulations, reflecting broader investor protection and market transparency expectations.

### Internal Control Reporting

Listed companies are also subject to internal control reporting requirements relating to financial reporting and governance. These requirements form part of Japan's broader regulatory framework designed to enhance financial reporting reliability and accountability.

### Additional Audit Expectations

Audit obligations may arise not only from local statutory requirements but also from group reporting, financing arrangements, shareholder expectations, or internal governance policies.

## 9.5 Accounting Period and Recordkeeping

### Accounting Period Selection

Businesses are free to select their own accounting period, although practical factors such as tax compliance, operational convenience, financing requirements, and group reporting alignment often influence the decision. Many Japanese companies traditionally adopt a March fiscal year-end, although other year-ends are also common.

### Bookkeeping Requirements

Companies operating in Japan are generally required to maintain proper accounting books and supporting records in accordance with applicable legal and tax requirements.

### Documentation and Record Retention

Proper recordkeeping is essential for financial, tax, and regulatory compliance. Records should be maintained systematically and in sufficient detail to support audit, tax review, or regulatory examination.

### Group Reporting Alignment

Companies that are part of multinational groups often need to align local accounting processes with global reporting timetables, internal controls, and management reporting expectations. Where Japanese statutory accounting and group reporting requirements differ, separate reporting processes or reconciliation procedures may be required. In such cases, early planning of accounting processes, approval workflows, and internal controls is advisable to support operational efficiency and ongoing compliance.

## 9.6 Key Accounting Considerations

### Revenue Recognition

Revenue recognition follows applicable accounting standards and depends on the nature of contractual obligations and the timing of the transfer of goods or services. Businesses with long-term contracts, subscription models, service arrangements, or complex performance obligations may require careful analysis.

### Asset Valuation and Depreciation

Inventory valuation, fixed asset accounting, depreciation, and asset impairment are important accounting considerations for many businesses operating in Japan. The appropriate treatment will depend on the nature of the assets, applicable standards, and the business model.

### Lease and Intangible Asset Accounting

Lease accounting, software capitalization, intellectual property, and other intangible asset treatment often require specific analysis, particularly for technology, manufacturing, and service-based businesses.

### Foreign Currency and Cross-Border Transactions

Companies engaged in international business should consider the treatment of foreign currency transactions, translation of overseas operations where relevant, intercompany balances, and the interaction between local and global reporting standards.

### Deferred Tax and Tax Alignment

Differences between accounting and tax treatment may give rise to deferred tax considerations, particularly for larger or more complex businesses. Coordination between accounting and tax compliance is therefore often important.

### Business Combinations and Capital Transactions

Acquisitions, restructurings, capital transactions, goodwill, and changes in ownership structure may involve additional accounting considerations.

### Changes in Accounting Policies and Estimates

Changes in accounting policies, accounting estimates, or significant financial assumptions should be carefully evaluated and reflected in accordance with the applicable accounting framework.

# Chapter 10: Corporate Taxation

## 10.1 Introduction

Japan's corporate tax system is comprehensive and applies to both domestic businesses and, under certain conditions, to foreign corporations conducting business in Japan.

The corporate tax framework consists not only of national corporate income tax but also local taxes and other business-related tax obligations. The overall tax position will therefore depend on the entity's legal structure, activities, financing arrangements, and cross-border relationships.

For foreign businesses, key tax considerations often include the scope of taxable presence in Japan, permanent establishment (PE) exposure, tax compliance obligations, withholding taxes, international tax rules, and the interaction between Japanese tax requirements and global tax structures.

Because Japanese corporate taxation is closely linked to accounting treatment, financial reporting, and documentation, tax planning and compliance are best approached as part of the broader financial governance framework.

Tax consequences are often shaped by decisions made at the investment structuring stage, including entity selection, financing arrangements, profit repatriation strategy, and operational design. Addressing these early in the planning process is therefore advisable.

## 10.2 Taxable Entities and Scope of Taxation

Japan distinguishes between domestic corporations and foreign corporations for corporate tax purposes, and the scope of taxation varies according to the corporation's tax status and business presence in Japan.

### Classification of Taxable Entities

An overview of each framework is provided in the table below.

#### Domestic Corporations

A domestic corporation, one whose head office or principal office is in Japan, is subject to Japanese corporate taxation on its worldwide income.

### Classification of Taxable Entities

Type of Entity	General Tax Scope
<b>Domestic corporation</b>	Taxable in Japan on worldwide income, subject to applicable relief provisions
<b>Foreign corporation with a taxable presence in Japan</b>	Taxable on income attributable to the Japanese taxable presence
<b>Foreign corporation without a taxable presence in Japan</b>	Generally taxed only on certain Japan-source income, typically through withholding mechanisms where applicable

## Foreign Corporations

A foreign corporation is an entity incorporated outside Japan or otherwise not classified as a domestic corporation for Japanese tax purposes. Foreign corporations may become taxable in Japan depending on the nature of their business activities and taxable nexus in Japan.

### Permanent Establishment (PE)

For foreign businesses, one of the most important tax concepts is PE. Broadly, a foreign corporation with a sufficient presence in Japan may become subject to Japanese corporate taxation on income attributable to that presence.

Examples of circumstances that may give rise to a taxable presence include:

- a branch or other fixed place of business in Japan;
- certain long-term projects or business activities in Japan; or
- certain activities conducted in Japan through dependent business arrangements.

The precise treatment will depend on any applicable tax treaty.

### Japan-Source Income Without PE

Even where a foreign corporation does not have a PE in Japan, certain categories of Japan-source income (such as dividends, interest, royalties, or other specified payments) may still be subject to Japanese taxation, often through withholding tax, with relief potentially available under an applicable tax treaty.

## 10.3 Corporate Tax Framework and Tax Burden

Japan's corporate tax burden is composed of multiple layers of taxation rather than a single corporate income tax. As a result, the effective corporate tax burden is determined by a combination of national and local taxes.

### Overview of Corporate Tax Components

An overview is provided in the table below.

### Overview of Corporate Tax Components

Tax Category	General Description
<b>National corporate tax</b>	Core corporate income tax imposed at the national level
<b>Local inhabitant tax</b>	Local tax imposed by prefectural and municipal authorities
<b>Enterprise tax (business tax)</b>	Local tax generally linked to business activities and taxable income
<b>Special local taxes and surcharges</b>	Additional tax elements depending on applicable tax rules

### Overall Tax Burden

The effective corporate tax burden varies by company size, legal form, location, taxable income, and available tax incentives or deductions.

The combined effective corporate tax rate is generally around 30% (comprising national corporate tax, local inhabitant tax, and enterprise tax), although the actual rate will depend on the specific circumstances of the business.

### Entity-Specific Differences

Tax treatment may differ depending on whether the entity is a domestic corporation, branch operation, regulated business, or entity eligible for particular tax measures.

Smaller businesses may benefit from certain simplified tax treatments or preferential measures, subject to applicable conditions.

## 10.4 Taxable Income and Tax Computation

Corporate taxable income in Japan is not determined solely by accounting profit. While taxable income generally begins with financial results prepared under the applicable accounting framework, various tax adjustments are required under Japanese tax law.

### General Tax Computation Framework

An overview of each framework is provided in the table below.

### Accounting Profit vs Taxable Income

In practice, Japanese corporate taxation is closely linked to accounting, but accounting and tax treatment do not always align. Certain items may be recognized differently for financial reporting and tax purposes, resulting in taxable income that differs from accounting profit.

### Common Tax Adjustments

The following section provides further detail on common adjustment areas.

### General Tax Computation Framework

Step	General Concept
<b>Accounting profit</b>	Financial results based on applicable accounting standards
<b>Tax adjustments</b>	Additions or deductions required under tax law
<b>Taxable income</b>	Income subject to corporate taxation after applicable adjustments
<b>Corporate tax liability</b>	Tax computed after applying relevant tax rules, credits, and reliefs

### Capital vs Revenue Transactions

The distinction between capital and revenue transactions is also important for Japanese corporate tax purposes, as certain capital-related items may be treated differently from ordinary operating income or expenses.

### Foreign Corporations

For foreign corporations taxable in Japan, the computation of taxable income will generally depend on the scope of the Japanese taxable presence and the income attributable to it, subject to domestic law and applicable treaty provisions.

## 10.5 Common Corporate Tax Adjustments

Japanese corporate tax law contains a number of specific rules that may result in differences between accounting and tax treatment. Tax compliance in Japan often requires detailed review beyond the financial statements alone.

### Depreciation and Capital Expenditure

The tax treatment of fixed assets, depreciation, amortization, and capital expenditure may differ from accounting treatment depending on the nature of the asset and applicable tax rules, making asset classification and the timing of deductions important considerations.

### Entertainment and Business Promotion Expenses

Certain business entertainment, hospitality, and promotional expenditures are subject to specific deductibility limitations under Japanese tax law, even where such expenses are recognized for accounting purposes.

### Directors' Compensation

The deductibility of compensation paid to directors and certain senior management is subject to specific tax requirements relating to structure, timing, and payment arrangements.

### Provisions and Timing Differences

Some provisions or reserves recognized for accounting purposes may not be immediately deductible for tax purposes, resulting in timing differences between accounting profit and taxable income.

### Other Adjustment Areas

Other adjustment areas may include impairment-related timing differences, valuation matters, bad debt treatment, and other items subject to specific tax rules.

## 10.6 Tax Incentives and Tax Credits

Japan's corporate tax system includes various relief measures, tax incentives, and tax credits that may reduce the effective tax burden, depending on the nature of the business and the applicable conditions.

### Overview of Common Relief Mechanisms

An overview is provided in the table below.

#### Foreign Tax Credits

Where a Japanese taxable entity is subject to foreign taxation on qualifying foreign-source income, relief may be obtained through foreign tax credits, subject to applicable limitations and technical requirements. These rules are designed to mitigate double taxation in cross-border operations.

#### Dividend Participation Exemption

Japan provides relief for certain qualifying foreign dividend income, reducing the risk of multiple layers of taxation within multinational group structures.

### Overview of Common Relief Mechanisms

Relief Category	General Description
Foreign tax credits	Relief from double taxation on qualifying foreign-source income
Dividend participation exemption	Partial relief for certain qualifying foreign dividend income
Research and development incentives	Tax incentives for qualifying innovation and development activities
Investment-related incentives	Incentives for certain capital investment or policy-driven investment activity
Withholding tax credits	Credits for qualifying taxes withheld at source

The availability and scope of such relief will depend on the ownership structure and other technical requirements.

#### Research and Development Incentives

Tax incentives are available for eligible research and development activities, innovation-related expenditure, and certain strategic investments, provided the relevant conditions are met.

From fiscal years beginning on or after April 1, 2025, Japan's Innovation Box regime provides a 30% deduction for qualifying income derived from certain patents and eligible AI/software-related copyrighted works, subject to specified conditions, with the measure currently scheduled to apply through fiscal years ending by March 31, 2032.

#### Withholding Tax Credits

Taxes withheld at source on qualifying income may be creditable against Japanese corporate tax liabilities, subject to applicable rules and limitations.

### Interaction with Other Incentives

The practical availability of these incentives will depend on the company's tax profile, compliance position, legal structure, and the interaction between domestic rules and international tax arrangements.

## 10.7 Loss Utilization

Japan's corporate tax system allows qualifying tax losses to be utilized across multiple fiscal periods, subject to certain conditions and limitations.

### Overview of Loss Relief Mechanisms

An overview is provided in the table below.

#### Loss Carryforward

Qualifying corporate tax losses may generally be carried forward and offset against future taxable income for up to 10 years, subject to applicable compliance requirements and utilization limitations.

For larger companies, the amount of losses utilized in any single year is generally capped at 50% of taxable income for that year. Smaller companies (generally those with paid-in capital of JPY 100 million or less) are not subject to this limitation.

### Overview of Loss Relief Mechanisms

Relief Mechanism	General Description
Loss carryforward	Utilization of qualifying prior-year tax losses against future taxable income
Loss carryback	Relief through offsetting qualifying losses against prior taxable periods in limited circumstances
Utilization restrictions	Limits may apply depending on the company's profile, tax status, or applicable tax rules

The availability of such relief depends on continued compliance, filing status, and other technical conditions.

#### Loss Carryback

Where certain conditions are satisfied, including the filing of a blue-form tax return, eligible corporations may obtain a refund of previously paid corporate tax through the loss carryback regime. This relief is generally available only to certain categories of taxpayers.

#### Practical Limitations

The use of tax losses may be affected by ownership changes, corporate restructuring, filing status, anti-avoidance rules, or other technical limitations.

For foreign businesses involved in acquisitions, reorganizations, or restructuring transactions, the treatment of existing tax losses warrants careful consideration.

## 10.8 Tax Filing and Compliance

Corporate taxpayers in Japan are subject to ongoing filing, payment, and documentation obligations. Tax compliance requirements apply regardless of whether a corporation is profitable, and the scope of obligations varies by tax profile and activities.

### Overview of Key Compliance Areas

An overview is provided in the table below.

#### Annual Tax Returns

Corporations are generally required to file annual corporate tax returns together with supporting documentation prepared based on the company's financial records and tax computations. Filing obligations apply even in years where the corporation has no taxable profit.

Corporate tax returns are generally due within two months of the fiscal year-end. An extension may be granted upon application. However, such extensions generally do not extend the deadline for payment of tax, and interest may apply to any unpaid tax balance.

### Payment Obligations

Taxpayers are required to pay applicable corporate tax liabilities in accordance with the relevant filing and payment framework. Depending on the circumstances, installment or interim payment obligations may also arise.

### Blue Return Filing System

Japan operates a blue return (Aoiro Shinkoku) filing system for qualifying taxpayers that maintain appropriate accounting books and tax records in accordance with applicable requirements.

Qualifying for this regime may provide tax benefits, including access to certain tax reliefs, incentives, or loss utilization mechanisms.

### Recordkeeping and Documentation

Proper accounting books, supporting documentation, and tax records should be maintained in an organized and supportable manner, particularly where tax audits, international tax compliance, or adjustment-sensitive areas are involved.

### Overview of Key Compliance Areas

Compliance Area	General Requirement
Annual tax returns	Filing of corporate tax returns and supporting schedules
Tax payments	Payment of assessed corporate tax and related tax obligations
Recordkeeping	Maintenance of accounting books and supporting documentation
Related disclosures	Disclosure of certain ownership, transaction, or tax-related information where applicable

## 10.9 International Tax Considerations

Foreign businesses operating in Japan should carefully consider Japan's international tax rules, particularly where cross-border transactions, multinational group structures, related-party financing, or overseas subsidiaries are involved.

Japan's international tax framework has developed significantly in line with OECD standards and global anti-base erosion initiatives.

### Overview of Key International Tax Areas

An overview is provided in the table below.

#### Transfer Pricing

Japan applies transfer pricing rules to transactions between related parties across borders, requiring such transactions to be conducted on an arm's-length basis.

Relevant transactions may include:

- sale and purchase of goods;
- provision of services;
- financing arrangements;
- intellectual property transactions; and
- other intercompany dealings.

Multinational groups operating in Japan should ensure that pricing methodologies, documentation, and internal controls are consistent with applicable transfer pricing requirements.

Based on the size and structure of the multinational enterprise group, additional transfer pricing documentation and reporting obligations may apply, including Local File, Master File, and Country-by-Country Reporting (CbCR) requirements. Certain Japanese entities may also be required to submit notifications regarding the ultimate parent entity and the filing jurisdiction of the Country-by-Country Report.

### Overview of Key International Tax Areas

Area	General Focus
Transfer pricing	Arm's-length pricing for cross-border related-party transactions
Controlled Foreign Company (CFC) rules	Anti-deferral taxation for certain low-taxed foreign entities
Interest limitation rules	Restrictions on deductibility of excessive related-party financing costs
Cross-border reporting	Documentation and reporting obligations for multinational groups
Global Minimum Tax (Pillar Two)	Additional reporting and top-up tax obligations for certain large multinational enterprise groups under Japan's implementation of the OECD Pillar Two framework

**Controlled Foreign Company (CFC) Rules**

Japan applies CFC rules designed to prevent inappropriate deferral of taxation through certain foreign entities.

Based on the ownership structure, tax profile, and activities of the overseas entity, Japanese taxpayers may be required to include certain foreign income in their Japanese tax base.

These rules can be highly technical and are particularly relevant for groups using offshore holding, treasury, intellectual property, or low-tax operational structures.

**Interest Limitation Rules**

Japan applies rules that can restrict the deductibility of excessive financing costs in certain cross-border financing structures, especially where Japanese operations are financed through related-party debt, leveraged arrangements, or other structures involving significant interest expense.

Foreign investors should review their financing arrangements carefully in light of both domestic tax rules and international tax expectations.

**Cross-Border Reporting and Documentation**

Additional reporting and documentation obligations may arise for multinational groups in connection with transfer pricing and international tax compliance.

For larger or more complex groups, this may include transfer pricing documentation, country-by-country reporting, and disclosure of overseas related-party arrangements.

**Global Minimum Tax (Pillar Two)**

Japan has implemented the OECD Pillar Two rules, including the Income Inclusion Rule (IIR) and Qualified Domestic Minimum Top-up Tax (QDMTT).

Multinational enterprise groups with consolidated revenues of EUR 750 million or more may be subject to additional compliance and reporting obligations.

**10.10 Tax Treaties and Cross-Border Relief**

Japan maintains an extensive tax treaty network, with over 90 conventions covering more than 150 countries and territories. Tax treaties are designed to prevent double taxation, allocate taxing rights between jurisdictions, and provide certainty for cross-border business activities.

Tax treaties may reduce or eliminate withholding taxes on dividends, interest, and royalties and can provide protection against Japanese taxation where a foreign enterprise does not have a PE.

Taxpayers seeking treaty benefits are generally required to satisfy applicable treaty conditions and submit prescribed documentation to the Japanese tax authorities.

**Overview of Treaty-Related Considerations**

An overview is provided in the table to the right.

**Overview of Treaty-Related Considerations**

Area	General Relevance
<b>Withholding tax relief</b>	Reduced tax rates on dividends, interest, royalties, and other qualifying payments
<b>PE protection</b>	Clarification of when business activities create taxable presence
<b>Double taxation relief</b>	Coordination between Japanese taxation and foreign tax systems
<b>Treaty eligibility</b>	Access to treaty benefits depending on legal and ownership structure

**Withholding Tax Relief**

Tax treaties may reduce or eliminate Japanese withholding tax on certain outbound payments, depending on the relevant treaty and the nature of the payment.

Common payment categories include:

- dividends;
- interest;
- royalties; and
- certain other cross-border payments.

Whether treaty benefits are available will depend on the specific treaty provisions and whether the relevant eligibility conditions are met.

**PE Protection**

Tax treaties often modify or clarify the circumstances in which business activities give rise to a taxable PE in Japan, which can be particularly important for foreign businesses operating through representative activities, project-based work, service arrangements, or cross-border operational structures.

**Double Taxation Relief**

Tax treaties are designed to reduce the risk of double taxation by coordinating taxing rights between jurisdictions, and may operate alongside domestic foreign tax credit mechanisms and other relief provisions.

**Treaty Access Considerations**

Treaty benefits are not automatically available in all circumstances. Eligibility may depend on factors such as legal structure, beneficial ownership, anti-abuse provisions, documentation requirements, and applicable procedural compliance.

Treaty access should therefore be considered as part of broader tax structuring, rather than assumed to be automatically available.

# Chapter 11: Taxation of Individuals

## 11.1 Introduction

Japan's individual tax system applies to both Japanese nationals and foreign individuals, with tax treatment determined by the individual's residency status, income source, and personal circumstances.

For foreign businesses operating in Japan, individual taxation is an important consideration in relation to expatriate assignments, executive relocation, cross-border employment arrangements, payroll administration, and employer compliance obligations.

Japanese individual taxation distinguishes between residents and non-residents, with different rules governing the scope of taxable income, filing obligations, withholding requirements, and access to treaty relief.

Because individual tax consequences may be significantly affected by residency status, employment structure, compensation arrangements, and international mobility, early tax planning is often advisable in cross-border situations.

## 11.2 Tax Residency and Scope of Taxation

An individual's Japanese tax treatment depends primarily on their tax residency classification.

The scope of taxable income, filing obligations, and availability of certain relief measures may differ significantly depending on whether the individual is treated as a resident, non-permanent resident, or non-resident for Japanese tax purposes.

### Overview of Tax Residency Categories

An overview of each category is provided in the table below.

#### Permanent Residents

Permanent residents for Japanese tax purposes are tax residents other than non-permanent residents, and are subject to Japanese income taxation on their worldwide income, regardless of where the income arises or where payment is made.

### Overview of Tax Residency Categories

Status	General Description	Scope of Taxation
<b>Permanent Resident</b>	Tax residents other than non-permanent residents	Worldwide income
<b>Non-Permanent Resident</b>	Certain non-Japanese tax residents meeting applicable conditions	Japan-source income and certain foreign-source income, depending on remittance and applicable rules
<b>Non-Resident</b>	Individuals who are not Japanese tax residents	Japan-source income only

#### Non-Permanent Residents

Non-permanent resident status may apply to certain foreign individuals residing in Japan who satisfy the applicable legal conditions.

This category is particularly relevant for expatriates and internationally mobile professionals. Non-permanent residents are generally taxed on Japan-source income, together with certain foreign-source income that is paid in or remitted to Japan.

#### Non-Residents

Non-residents are individuals who do not meet the criteria for Japanese tax residency and are generally subject to Japanese taxation only on Japan-source income.

Depending on the nature of their income, non-residents may be subject to withholding tax or limited filing obligations. The Japanese tax burden may be reduced where an applicable tax treaty provides relief.

### Overview of Individual Tax Compliance Framework

Area	General Framework
<b>Withholding taxation</b>	Tax collected at source for certain income categories
<b>Self-assessment</b>	Annual income tax return filing where applicable
<b>Income classification</b>	Different tax treatment depending on the nature of income
<b>Filing obligations</b>	Vary depending on residency status and income profile

#### Practical Considerations

Tax residency classification can materially affect the overall Japanese tax exposure of foreign executives, secondees, remote workers, and other internationally mobile individuals.

Residency status should therefore be assessed carefully at an early stage of relocation or cross-border employment planning.

## 11.3 Taxable Income and Filing Framework

Japanese individual income taxation operates through a combination of withholding tax and self-assessment, depending on the nature of the income and the individual's circumstances.

Taxable income is generally determined by reference to the applicable categories of income, allowable deductions, and the individual's tax residency classification.

### Overview of Individual Tax Compliance Framework

An overview is provided in the table below.

## Income Categories

Japanese individual income tax distinguishes among different categories of income, which may be subject to differing tax treatment.

Common categories include:

- employment income;
- business income;
- dividend income;
- interest income;
- real estate income;
- capital gains;
- retirement income; and
- miscellaneous income.

## Withholding Taxation

Certain income, particularly employment income and other designated payment categories, is generally subject to withholding tax at source. In such cases, the payer may be responsible for withholding and remitting tax in accordance with the applicable rules.

## Self-Assessed Income Tax

An annual income tax return may be required to report taxable income, claim deductions, and settle the final tax liability. The applicable framework varies by residency status, income sources, and whether withholding fully covers the tax obligation.

## Practical Considerations

For foreign individuals and internationally mobile employees, tax compliance may involve coordination between payroll withholding, annual filing obligations, treaty claims, and employer reporting processes. The applicable framework should be assessed in light of the individual's overall employment and tax profile.

## 11.4 Employment Income and Cross-Border Employment Issues

Employment income taxation can present particular complexity for foreign individuals working in or in connection with Japan, especially where cross-border work arrangements, overseas payroll structures, executive roles, or international assignments are involved.

The Japanese tax treatment of employment income will depend on factors such as tax residency status, source of services, compensation structure, payment arrangements, and the application of any relevant tax treaty.

### Overview of Cross-Border Employment Tax Considerations

An overview is provided in the table to the right.

#### Employment Income

Employment income generally includes salary, bonuses, allowances, and other employment-related compensation. The applicable tax treatment turns on residency classification and the extent to which the income is regarded as taxable in Japan.

#### Cross-Border Work Arrangements

Where an individual performs services both inside and outside Japan, the allocation of employment income and the determination of Japan-source income may require detailed analysis.

This is particularly relevant for internationally mobile employees, regional roles, hybrid working arrangements, and temporary assignments.

### Overview of Cross-Border Employment Tax Considerations

Area	Typical Consideration
<b>Employment income</b>	Taxation of salary, bonuses, and employment-related compensation
<b>Cross-border workdays</b>	Allocation issues where services are performed both inside and outside Japan
<b>Director compensation</b>	Different sourcing considerations may apply
<b>Offshore payroll</b>	Filing and withholding implications based on the payment arrangements involved
<b>Treaty relief</b>	Potential modification of domestic tax treatment

#### Director Compensation

Different treatment may apply to directors and certain executive positions.

For internationally active executives, the sourcing and reporting of compensation may differ from those applicable to ordinary employees.

#### Offshore Payroll Arrangements

Where compensation is paid outside Japan or through overseas payroll arrangements, Japanese tax obligations may still arise. This can affect withholding obligations, annual filing requirements, employer compliance responsibilities, and practical payroll coordination.

#### Tax Treaty Considerations

Where applicable, tax treaties may reduce or modify the Japanese tax burden, particularly for short-term assignments, dual-country employment exposure, or treaty-based exemptions.

Treaty considerations should be assessed alongside domestic tax and payroll compliance requirements.

## 11.5 Tax Rates, Deductions, and Reliefs

Japanese individual income tax generally operates under a progressive tax framework, with the overall tax burden determined by the individual's income level, residency classification, income composition, and applicable deductions or relief measures.

In addition to national income tax, resident individuals may also be subject to local inhabitant tax and other applicable charges, depending on their circumstances.

### Overview of Individual Tax Framework

An overview is provided in the table below.

### Progressive Taxation

Resident individuals are generally subject to progressive income taxation, with higher rates applying as taxable income increases.

National income tax rates range from 5% to 45% across seven brackets, with a 2.1% reconstruction surtax also applied through 2037. Local inhabitant tax is generally imposed at a flat rate of 10%, resulting in a combined top marginal rate of approximately 55%.

The effective overall tax burden may therefore vary significantly depending on compensation structure, income composition, and applicable deductions.

### Deductions and Reliefs

Individuals may be eligible for various deductions and relief measures, depending on their circumstances.

These may include deductions or allowances relating to:

- basic personal allowances;
- qualifying dependents;
- social insurance contributions;
- certain insurance premiums;
- medical expenses; and
- qualifying charitable contributions.

The availability and scope of deductions are determined by the individual's tax profile and applicable legal requirements.

### Overview of Individual Tax Framework

Area	General Framework
<b>Income tax rates</b>	Progressive taxation based on taxable income
<b>Local taxation</b>	Additional local inhabitant tax for qualifying residents
<b>Deductions</b>	Various deductions and allowances may be available
<b>Foreign tax relief</b>	Relief mechanisms may reduce double taxation exposure

### Foreign Tax Credit

Residents subject to foreign taxation on qualifying overseas income may obtain relief through foreign tax credits in appropriate circumstances.

The practical availability of such relief is determined by the nature of the income, residency status, and the interaction between domestic tax rules and applicable treaty provisions.

### Practical Considerations

For internationally mobile individuals, the interplay between compensation design, foreign income exposure, tax treaty relief, and available deductions can materially affect the overall effective tax burden.

## 11.6 Special Individual Tax Considerations

Certain individuals, particularly foreign executives, internationally mobile professionals, high-net-worth individuals, and participants in global compensation arrangements, may be subject to additional reporting obligations or special tax considerations under Japanese law.

### Overview of Special Individual Tax Areas

Area	Typical Consideration
<b>Equity compensation</b>	Tax reporting and taxation of stock-based compensation arrangements
<b>Foreign asset reporting</b>	Additional reporting obligations may apply to individuals holding foreign assets above specified thresholds
<b>Exit tax</b>	Potential deemed taxation on departure from Japan in certain cases
<b>High-net-worth individuals</b>	Additional disclosure obligations depending on asset profile

### Overview of Special Individual Tax Areas

An overview is provided in the table below.

#### Equity Compensation

Individuals participating in stock-based compensation arrangements (such as stock options, restricted stock units (RSUs), employee stock purchase plans (ESPPs), or similar incentive arrangements) may have Japanese tax consequences depending on the nature of the award, timing of vesting or exercise, residency status, and employment circumstances.

Employers may also have related reporting or payroll compliance obligations in connection with such arrangements.

#### Foreign Asset Reporting

Japan imposes additional reporting obligations on certain residents holding overseas assets. Individuals whose foreign assets exceed specified thresholds may be required to file an Overseas Assets Statement. Separate reporting obligations may also apply under the Property and Debt Statement regime for individuals meeting certain income or asset thresholds. Penalties may apply for non-compliance.

### Exit Tax Considerations

Under Japan's exit tax regime, departing individuals who meet specific residency and asset thresholds may be subject to deemed taxation on unrealized capital gains, even if the underlying assets have not been disposed of or liquidated.

The exit tax currently applies to financial assets such as stocks, bonds, and investment trusts, and does not extend to real estate or cash holdings. This is an important consideration for internationally mobile executives, founders, investors, and other high-net-worth individuals planning relocation.

### High-Net-Worth Compliance Considerations

Individuals with significant asset holdings, overseas investments, or complex international financial arrangements may be subject to additional disclosure or reporting obligations.

Japan's minimum tax framework applies to certain high-income individuals whose taxable income exceeds JPY 330 million, with the minimum tax computed at 27.5% (including local tax) on the excess.

Broader tax compliance obligations should therefore be reviewed as part of overall wealth, mobility, and relocation planning.



## Chapter 12: Indirect and Other Taxes

### 12.1 Introduction

In addition to corporate and individual income taxation, businesses operating in Japan may be subject to a range of indirect taxes, local taxes, transaction taxes, and asset-related taxes.

These taxes can affect business operations, pricing, cross-border transactions, payroll administration, investment structuring, and compliance obligations across different business types and activities.

Foreign investors should consider not only direct income taxation, but also broader tax obligations covering consumption tax, withholding tax, local business taxation, property ownership, and certain transactions or transfers.

Because the Japanese tax framework includes both national and local tax components, as well as transaction-specific compliance requirements, tax obligations may extend beyond the corporate income tax framework discussed in earlier chapters.

### 12.2 Consumption Tax

Japan's consumption tax system is broadly comparable in concept to a value added tax (VAT) or goods and services tax (GST) framework used in other jurisdictions.

Businesses subject to Japanese consumption tax may be required to collect tax on taxable transactions, account for input tax credits where applicable, and comply with registration, filing, and payment obligations.

#### Overview of the Consumption Tax Framework

An overview is provided in the table to the right.

#### General Framework

The standard consumption tax rate is 10%, comprising a national rate of 7.8% and a local rate of 2.2%. A reduced rate of 8% applies to certain food and beverages (excluding alcohol and dining out) and subscription newspaper sales.

Consumption tax generally applies to taxable transactions involving the supply of goods, leasing of assets, or provision of services in Japan, subject to applicable exemptions or exclusions.

The tax framework affects pricing, invoicing, accounting, and commercial arrangements across a wide range of transactions.

#### Qualified Invoice System

Under Japan's Qualified Invoice System, businesses that wish to enable their customers to claim input consumption tax credits are generally required to register as qualified invoice issuers.

Registered businesses are required to issue qualified invoices containing specified information and maintain supporting records. Unregistered businesses may find that customers prefer to transact with registered suppliers, as input consumption tax credits may be restricted without a qualified invoice.

Foreign businesses making taxable supplies in Japan should consider whether registration is commercially necessary in light of their customer base and business activities.

#### Registration and Taxable Entity

Japanese consumption tax registration and compliance obligations may arise for certain businesses.

This can apply not only to Japanese businesses but also to certain foreign businesses engaging in taxable activities connected with Japan.

The practical scope of registration requirements is shaped by the scale, structure, and nature of the business.

#### Input and Output Tax Mechanism

Japanese consumption tax liability is generally calculated as the difference between:

- output tax collected on taxable sales or services; and
- deductible input tax incurred on qualifying business purchases or expenses.

The calculation framework can become technically complex depending on the nature of the transactions and applicable deduction rules.

#### Overview of the Consumption Tax Framework

Area	General Framework
<b>Taxable transactions</b>	Tax may apply to certain supplies of goods and services in Japan
<b>Qualified Invoice System</b>	Registration may be necessary to allow customers to claim input consumption tax credits
<b>Taxable entity</b>	Certain businesses, including foreign businesses in some cases, may become subject to consumption tax obligations
<b>Input / output tax mechanism</b>	Tax liability generally reflects output tax less deductible input tax
<b>Registration and requirement</b>	Registration, recordkeeping, filing, and payment obligations may apply
<b>Cross-border transactions</b>	Special rules may apply to certain international digital or service transactions
<b>Filing and Payment Obligations</b>	Returns are generally due within two months after fiscal year-end, and interim filing obligations may apply

**Cross-Border Transactions and Digital Services**

Special rules may apply to certain cross-border transactions, including international digital services and other arrangements involving foreign service providers.

Foreign businesses and multinational groups should consider whether reverse charge mechanisms or other special rules are relevant to their activities.

**Compliance and Administration**

Businesses subject to Japanese consumption tax are generally required to maintain appropriate accounting records and supporting documentation, and may be required to file periodic tax returns and make tax payments in accordance with the applicable compliance framework.

In some circumstances, refund positions may arise where deductible input tax exceeds output tax.

**Consumption Tax Filing Obligations**

Consumption tax returns and payments are generally due within two months of the fiscal year-end.

Upon application, an extension of up to one month may be available for the filing deadline, similar to the corporate tax filing extension regime. However, such an extension generally does not extend the payment deadline, and interest may apply to unpaid tax.

Businesses whose prior-year consumption tax liability exceeds certain thresholds may also be required to make interim filings and payments during the year.

**12.3 Local Business and Inhabitant Taxes**

In addition to national taxes, taxpayers in Japan may be subject to various local taxes imposed by the prefectural or municipal governments.

These taxes apply to both corporations and individuals, based on the nature of the taxpayer and its activities.

**Overview of Local Tax Framework**

An overview is provided in the table below.

**Overview of Local Tax Framework**

Tax Type	General Characteristics
<b>Corporate inhabitant tax</b>	Local tax linked to corporate presence and, in some cases, corporate tax liability
<b>Enterprise tax (business tax)</b>	Local business tax generally associated with corporate activities and taxable income
<b>Individual inhabitant tax</b>	Local tax applicable to qualifying individuals residing in Japan

**Corporate Inhabitant Tax**

Corporate inhabitant tax is imposed by local authorities in connection with a corporation's presence in Japan and may include both income-related and fixed components. As a result, local tax obligations can arise even where a business is not profitable.

**Enterprise Tax (Business Tax)**

Enterprise tax is generally imposed at the prefectural level in relation to business activities carried on in Japan.

For larger companies with paid-in capital exceeding JPY 100 million, enterprise tax is calculated not only on taxable income, but also on a size-based component reflecting value added and capital.

This size-based enterprise tax (Gaikei Hyojun Kazei) applies regardless of profitability, meaning that tax liabilities may arise even in loss-making years, with the overall burden varying according to the size and structure of the business.

**Overview of Registration and Transaction Taxes**

Tax Type	General Characteristics
<b>Registration and license tax (Toroku Menkyo Zei)</b>	Tax imposed in connection with certain registrations, licenses, and official filings
<b>Stamp duty</b>	Tax imposed on certain taxable documents and contractual instruments

**Individual Inhabitant Tax**

Individuals residing in Japan may also be subject to local inhabitant tax in addition to national income taxation. For employers, this may create related payroll withholding and administrative obligations related to employee compensation.

**Practical Considerations**

Because Japan's local tax framework involves multiple taxing authorities and varies by location, business profile, and tax classification, local tax compliance should be considered alongside national tax obligations.

**12.4 Registration and Transaction Taxes**

Certain transactions, registrations, and legal formalities in Japan may trigger additional taxes separate from ordinary income taxation.

These taxes are often transaction-specific and may arise from company incorporation, asset transfers, contractual arrangements, regulated business activities, or other legal procedures.

**Overview of Registration and Transaction Taxes**

An overview is provided in the table below.

### Registration and License Tax

Registration and license tax (Toroku Menkyo Zei) may apply in connection with various registrations and licensing procedures, including corporate establishment, commercial and real estate registrations, intellectual property filings, and certain regulated business licenses. The applicable tax will depend on the nature of the registration or legal procedure involved.

### Stamp Duty

Stamp duty (Inshi Zei) may apply to certain taxable documents, agreements, or instruments executed in Japan.

Applicability turns on the document type and the transaction involved and should be assessed on a case-by-case basis as documentation practices continue to evolve.

### Practical Considerations

Although these taxes may not arise in all cases, they can affect transaction costs, documentation planning, and implementation timing, particularly in connection with incorporations, restructurings, financing transactions, or regulated business activities.

## 12.5 Property-Related Taxes

Ownership of certain assets in Japan may give rise to recurring local tax obligations in addition to acquisition or transaction-related taxes.

These taxes may be relevant for businesses holding real estate, facilities, equipment, or other qualifying business assets in Japan.

### Overview of Property-Related Taxes

An overview is provided in the table below.

#### Fixed Asset Tax

Fixed asset tax (Kotei Shisan Zei) is generally imposed on the ownership of certain assets, including land and buildings, based on the applicable local tax framework.

The tax is administered by local authorities and may arise regardless of whether the property is held for operational use, investment purposes, or other business purposes.

#### Depreciable Asset Tax

Certain business-use depreciable assets may also be subject to separate local tax obligations, which can be relevant for businesses holding equipment, machinery, or other qualifying operational assets. Reporting obligations may also apply, depending on the circumstances.

### Overview of Property-Related Taxes

Tax Type	General Characteristics
<b>Fixed asset tax (Kotei Shisan Zei)</b>	Recurring local tax on certain owned assets, including land and buildings
<b>Depreciable asset tax (Shokyaku Shisan Zei)</b>	Local tax applicable to certain business-use depreciable assets

### Practical Considerations

Property-related taxes are relevant not only for manufacturing or infrastructure-intensive businesses, but also for companies with office premises, leased assets, or other physical business footprints in Japan.

Asset ownership structures and local tax implications should therefore be factored into broader operational and investment planning.

## 12.6 Inheritance and Gift Tax

Japan imposes inheritance and gift taxes that can apply not only to Japanese nationals, but also to foreign individuals depending on factors such as residency status, domicile, nationality, asset location, and personal circumstances.

Cross-border succession and wealth transfer planning can therefore involve significant Japanese tax considerations.

### Overview of Wealth Transfer Tax Considerations

An overview is provided in the table below.

### Overview of Wealth Transfer Tax Considerations

Tax Type	General Characteristics
<b>Inheritance tax (Sozoku Zei)</b>	Tax that may apply to assets acquired through inheritance or bequest
<b>Gift tax (Zoyo Zei)</b>	Tax that may apply to assets transferred during lifetime without consideration
<b>Cross-border exposure</b>	Tax treatment may vary depending on residency status, domicile, nationality, and asset location

### Inheritance Tax

Inheritance tax may apply where assets are transferred upon death, depending on the circumstances of the deceased and the beneficiaries.

Japan's inheritance tax rates are among the highest in the world, ranging from 10% to 55% across progressive brackets. The tax is assessed on the taxable value of inherited assets after applicable deductions, including a statutory basic deduction.

The scope of taxable assets varies by factors such as Japanese residency, domicile status, nationality, and the location of the relevant assets. Cross-border family structures may therefore give rise to complex tax outcomes.

### Gift Tax

Gift tax may apply to transfers of assets made during an individual's lifetime. Gift tax rates also range from 10% to 55%, with separate rate schedules applying depending on whether the recipient is a direct lineal descendant or another person.

As with inheritance tax, the scope of taxation depends on the circumstances of the donor and recipient, including their residency status and the location of the transferred assets.

**Cross-Border Complexity**

Inheritance and gift tax exposure can be particularly complex for internationally mobile individuals, foreign executives residing in Japan, globally active families, and individuals holding overseas assets.

Tax outcomes may differ significantly depending on timing, immigration history, family structure, and asset ownership arrangements.

**Practical Considerations**

Because wealth transfer taxation involves highly fact-specific analysis, foreign individuals with substantial assets, international family structures, or long-term residence in Japan should consider the Japanese tax implications as part of broader succession and wealth planning.

**12.7 Withholding Tax**

Japan applies withholding tax to certain payments, particularly where the recipient is an individual, a non-resident, or a foreign corporation, based on the nature of the income and the relevant tax framework.

Common examples include dividends, interest, royalties, and other categories of Japan-source income. Domestic withholding tax rates may be reduced under an applicable tax treaty where treaty conditions are met.

Businesses making such payments are generally responsible for withholding and remitting the applicable tax to the Japanese tax authorities.

**Overview of Withholding Tax Framework**

An overview of each framework is provided in the table to the right.

**General Framework**

Unlike self-assessed income taxation, withholding tax (Gensen Choshuzei) is generally collected at source by the payer at the time qualifying payments are made.

The payer is responsible for withholding the applicable tax, remitting it to the tax authorities, and complying with related reporting obligations.

**Cross-Border Payments**

Withholding tax considerations commonly arise in connection with cross-border payments such as dividends, interest, royalties, service-related payments, and other categories of Japan-source income.

Under Japan's domestic tax rules, withholding tax may apply to certain payments to non-residents and foreign corporations, including dividends, interest, and royalties.

The standard domestic rate is generally 20.42% for dividends and royalties, while the applicable rate for interest depends on the nature of the payment. These rates may be reduced or eliminated under applicable tax treaties, subject to treaty eligibility and procedural requirements.

For example, under the Japan-US tax treaty, withholding tax on dividends may be reduced to 10% or 5% depending on ownership thresholds, while certain royalties may be exempt.

The applicable treatment is determined by the payment type, the recipient's tax status, and the relevant legal framework.

**Tax Treaty Relief**

Japan's tax treaty network may provide reduced withholding tax rates or exemptions in qualifying circumstances.

Treaty benefits are not automatic, however, and may require procedural filings, supporting documentation, or advance administrative steps.

**Practical Considerations**

Withholding tax compliance is particularly important in cross-border group structures, financing arrangements, intellectual property licensing, executive compensation arrangements, and international service relationships, and should be considered alongside broader corporate tax, treaty, and international tax planning.

**Overview of Withholding Tax Framework**

Area	General Framework
<b>Domestic payments</b>	Certain payments may be subject to withholding depending on the recipient and payment type
<b>Cross-border payments</b>	Japanese-source payments to non-residents or foreign corporations may trigger withholding tax
<b>Treaty relief</b>	Reduced rates or exemptions may be available under applicable tax treaties
<b>Compliance obligations</b>	Payers may be responsible for withholding, remittance, and reporting obligations

# Chapter 13: Labor Regulations

## 13.1 Introduction

Japan has a detailed labor and employment law framework designed to regulate working conditions, employee protections, social insurance, and employer obligations.

The principal legal framework includes the Labor Standards Act (Rodo Kijun Ho), Labor Contract Act, Industrial Safety and Health Act, Employment Insurance (Koyo Hoken) Act, Workers' Accident Compensation Insurance (Rodo Saigai Hoken) Act, and social insurance legislation, along with other relevant statutes. Regulatory oversight is primarily exercised by the Ministry of Health, Labour and Welfare (MHLW) and related authorities.

Foreign companies operating in Japan should be aware that Japanese employment law places significant emphasis on employee protection, procedural compliance, and statutory employer obligations.

## 13.2 Employment Documentation and Rules

Japanese employment law requires employers to clearly document employment terms and communicate workplace rules to employees.

### Overview of Employment Documentation Requirements

An overview is provided in the table below.

#### Employment Terms and Written Notice

Employers are generally required to provide employees with written notice of key working conditions at the commencement of employment.

These typically include matters such as the place of work, job description, working hours, wages, leave entitlements, contract terms (if any), and grounds for resignation or dismissal.

### Overview of Employment Documentation Requirements

Area	Typical Requirement
<b>Employment terms notice</b>	Written notice of key working conditions at the commencement of employment
<b>Employment agreements</b>	Contractual documentation reflecting employment terms and mutual obligations
<b>Rules of employment</b>	Formal internal work rules for qualifying employers
<b>Internal policies</b>	Supplemental HR, conduct, and workplace governance documentation

## Employment Agreements

In practice, employers commonly use employment agreements, offer letters, or similar documentation to formalize the working relationship and clarify rights and obligations beyond the minimum statutory notice requirements.

Accordingly, employers do not necessarily need to issue a separate written notice of working conditions if the employment agreement or other employment documentation includes all information required by law.

### Rules of Employment (Shugyo Kisoku)

Employers that continuously employ 10 or more employees are generally required to prepare and file rules of employment (Shugyo Kisoku) with the relevant Labor Standards Inspection Office (Rodo Kijun Kantoku Sho).

These workplace rules typically cover employment terms, compensation, working hours, leave arrangements, disciplinary matters, retirement provisions, and other internal workplace policies. Employers are also required to make the Rules of Employment accessible to employees.

### Internal Policies and Governance

Even where formal rules of employment are not legally required, employers should consider maintaining clear employment documentation, workplace policies, and internal governance procedures to support compliance, operational consistency, and effective employee management.

## 13.3 Recruitment and Hiring

Employers in Japan can recruit through a variety of channels, including private recruitment agencies, online platforms, direct hiring, executive search firms, and public employment services ("Hello Work").

At the recruitment stage, employers generally have flexibility in determining hiring needs and candidate profiles, within the boundaries of employment law and anti-discrimination requirements.

Japanese employment law includes protections relating to equal opportunity and fair treatment, and employers should ensure that recruitment practices, job advertisements, and selection processes comply with relevant legal requirements.

For certain roles and industries, employers may also need to consider practical matters such as language capability, visa eligibility for foreign hires, and onboarding procedures.

## 13.4 Working Conditions

Japanese employment law prescribes minimum standards for working conditions, including working hours, overtime, wages, leave, and termination protections. Employers may offer more favorable conditions, but are not permitted to contract below statutory minimums.

### Overview of Key Working Condition Areas

An overview is provided in the table to the right.

#### Working Hours and Overtime

As a general rule, statutory working hours are eight hours per day and 40 hours per week, excluding rest periods. Employees are entitled to rest breaks during working hours and at least one rest day per week (or four rest days within any four-week period), subject to limited exceptions. Employers are required to maintain accurate records of employees' working hours.

Employers wishing to require overtime or work on statutory days off must generally enter into the required labor-management arrangements ("Article 36 Agreement framework") and comply with applicable legal procedures.

Under the Article 36 Agreement framework, overtime is subject to statutory caps. The standard limit is 45 hours per month and 360 hours per year. Where a special clause is included in the agreement to address temporary increases in workload, overtime cannot exceed 100 hours in any single month (including holiday work) or 720 hours per year, and the average overtime over any two-to-six-month period cannot exceed 80 hours per month.

Premium pay rates generally range from 25% to 50%, depending on factors such as overtime work, late-night work, and work on statutory days off.

#### Wages

Wages must generally be paid directly to employees in currency, in full, and on a regular monthly basis, in accordance with legal requirements. Employers are also responsible for making required deductions, including taxes and social insurance contributions where applicable.

Minimum wage requirements apply and vary by region and, in some cases, industry. As of October 2025, the national weighted average minimum wage is JPY 1,121 per hour, with regional rates ranging from JPY 1,023 to JPY 1,226 per hour. The government has also set a policy target of raising the national average minimum wage to JPY 1,500 per hour in the late 2020s.

Bonuses are not legally mandatory under Japanese law and are typically paid based on company policy, individual employment contracts, or collective agreements.

#### Paid Leave and Other Leave

Employees are generally entitled to statutory annual paid leave once eligibility conditions are met.

Employees who have worked continuously for at least six months with an 80% or higher attendance rate are entitled to a minimum of 10 days of paid leave per year, increasing with tenure to a maximum of 20 days. Paid leave can generally be taken in one-day increments and, under certain conditions, may also be taken in hourly increments. Since 2019, employers are required to ensure that eligible employees take at least five days of annual paid leave per year.

### Overview of Key Working Condition Areas

Area	Typical Consideration
<b>Working hours and rest periods</b>	Statutory working time framework, rest periods, and compliance requirements
<b>Rest days and weekly holidays</b>	Statutory minimum weekly rest requirements
<b>Overtime</b>	Premium pay obligations and procedural requirements
<b>Wages</b>	Payment rules, statutory deductions, and minimum wage compliance
<b>Paid leave</b>	Statutory annual leave and other protected leave entitlements
<b>Probation</b>	Reasonableness and legal compliance in probationary arrangements
<b>Termination</b>	Significant employee protection and dismissal restrictions

Japanese employment law also provides for various protected leave entitlements, including maternity-related leave, childcare leave, family care leave, and certain other legally protected absences.

#### Probationary Periods

Employers can establish probationary periods as part of the employment contract, provided that employment practices remain reasonable and legally compliant. Probationary periods are generally used as an initial evaluation period within an existing employment relationship.

Decisions not to continue employment following probation are subject to legal scrutiny and should be handled carefully.

#### Resignation and Dismissal

Employees can generally resign in accordance with legal principles and contractual arrangements.

By contrast, dismissal by an employer is subject to significantly stricter legal standards, and dismissals lacking objectively reasonable grounds or social appropriateness can be deemed invalid under Japanese law.

In addition, when terminating an employee, an employer is generally required to provide 30 days of advance notice. If the notice period is less than 30 days, the employer must pay a termination notice allowance.

### 13.5 Social Insurance and Employee Benefits

Employers in Japan are generally required to enroll eligible employees in applicable social insurance and labor insurance programs. The precise obligations vary according to employment status, working hours, compensation arrangements, and the nature of the employer’s business.

#### Overview of Mandatory Social Insurance Programs

An overview is provided in the table below.

#### Workers’ Accident Compensation Insurance (Rodo Saigai Hoken)

This program covers employees who suffer work-related injury, illness, disability, or death. Employers are responsible for registration and premium payment, with insurance premiums borne entirely by the employer.

#### Employment Insurance (Koyo Hoken)

Employment insurance provides unemployment benefits and certain other employment-related support programs.

Eligibility and employer obligations will depend on the employment arrangement and applicable legal requirements.

Insurance premiums are shared between the employer and the employee, with the employer generally bearing a larger share. Contribution rates are subject to periodic revision.

#### Health Insurance (Kenko Hoken) and Pension Insurance

Eligible employees are required to participate in applicable health insurance and employees’ pension insurance programs. Contributions are generally shared between the employer and the employee.

Employers are responsible for registration, payroll administration, contribution handling, and ongoing compliance with reporting obligations.

#### Payroll Administration and Employer Compliance

In practice, employer obligations extend beyond registration and contribution payments. Employers must also manage payroll withholding tax, employee-related reporting, social insurance administration, and other ongoing compliance processes.

#### Health Checkups

Employers are generally required to provide employees with regular health checkups (at least once a year) and stress checks under occupational health and safety regulations. The associated costs are typically borne by the employer.

#### Supplementary Employee Benefits

In addition to statutory benefits, some employers provide supplementary benefits such as retirement arrangements, enhanced leave programs, housing support, wellness programs, or other employment-related welfare measures.

#### Overview of Mandatory Social Insurance Programs

Program	General Purpose
Workers’ Accident Compensation Insurance (Rodo Saigai Hoken)	Coverage for work-related injury or illness
Employment Insurance (Koyo Hoken)	Unemployment and certain employment-related benefits
Health Insurance (Kenko Hoken)	Medical coverage and related employee benefits
Employees’ Pension Insurance (Kosei Nenkin Hoken)	Pension-related social security coverage

## Chapter 14: Visa and Immigration

### 14.1 Introduction

Japan's immigration framework governs the entry, residence, and work authorization of foreign nationals. The system is administered primarily by the Immigration Services Agency of Japan (Nyukan Cho).

For foreign businesses operating in Japan, immigration compliance is an important practical consideration when establishing operations, relocating executives, transferring employees, or hiring foreign personnel locally.

In Japan, it is important to distinguish between a visa, which relates primarily to entry authorization, and a status of residence, which governs the permitted activities and duration of stay. Foreign nationals engaging in business or employment activities in Japan must generally hold a status of residence appropriate to their intended activities.

Immigration requirements vary by purpose of stay, employment role, qualifications, employer profile, and individual circumstances.

### 14.2 Types of Visas and Status of Residence

Japan provides a range of statuses of residence for foreign nationals based on their intended activities. For business operations and corporate employment, the following categories are among the most commonly relevant.

#### Overview of Common Business-Related Immigration Categories

An overview is provided to the right.

#### Business Manager

The Business Manager (Keiei Kanri) status of residence is generally used by foreign nationals who establish, manage, or operate a business in Japan, including company directors and senior executives.

Eligibility requires a genuine business operation in Japan, appropriate physical business premises (virtual offices are not permitted), and compliance with specific eligibility criteria.

Under revised requirements effective October 16, 2025, applicants must satisfy a cumulative set of conditions, including:

- A minimum capital or total investment of JPY 30 million;
- Mandatory employment of at least one qualifying full-time local employee (a Japanese national or permanent resident);
- A certified business plan vetted by a small and medium enterprise consultant, certified public accountant, or tax accountant;
- At least three years of business management experience or a relevant master's or professional degree; and
- Japanese language proficiency (CEFR B2 / JLPT N2 or higher) demonstrated by either the applicant or the full-time employee.

For early-stage founders unable to meet these requirements immediately, Japan offers a "Startup Visa" (under Designated Activities), which grants up to a two-year preparatory residency period to establish operations before transitioning to Business Manager status.

Immigration authorities will generally assess the credibility, viability, and operational substance of the proposed business.

#### Engineer / Specialist in Humanities / International Services

This is the most common work-related status of residence for foreign employees engaged in professional or white-collar roles, including engineering, IT, finance, consulting, marketing, administration, and international business functions.

Eligibility is generally assessed based on the nature of the role, the applicant's academic or professional background, and the relationship between the individual's qualifications and the proposed work. Immigration authorities strictly evaluate whether the compensation is equal to or greater than that of a Japanese national in an equivalent role.

#### Overview of Common Business-Related Immigration Categories

Status of Residence	Typical Use Case
<b>Business Manager (Keiei Kanri)</b>	Executives establishing, managing, or operating a business in Japan
<b>Engineer / Specialist in Humanities / International Services (Gijutsu Jinbun Chishiki Kokusai Gyomu)</b>	Professional and white-collar employment roles
<b>Intra-Company Transferee (Kigyo Nai Tenkin)</b>	Employees transferred from overseas group companies
<b>Highly Skilled Professional (Koudo Senmon Shoku)</b>	Highly qualified professionals under the points-based preferential framework
<b>Specified Skilled Worker (Tokutei Gino)</b>	Workforce roles in designated labor shortage sectors
<b>Dependent / Spouse-related statuses</b>	Accompanying qualifying family members
<b>Permanent Residence</b>	Long-term residence without activity-specific renewal requirements

**Intra-Company Transferee**

The Intra-Company Transferee (Kigyo Nai Tenkin) status is used where an employee is transferred from an overseas affiliate, parent company, or related entity to a Japanese office.

This category is relevant for multinational groups relocating employees into Japan, provided the employee has been employed at the overseas group office for at least one continuous year immediately prior to the transfer.

**Highly Skilled Professional**

Japan offers a points-based Highly Skilled Professional (Koudo Senmon Shoku) framework for certain highly qualified foreign professionals.

Applicants must score at least 70 points on the official evaluation criteria, which takes into account factors such as academic qualifications, professional experience, annual income, age, and Japan-related credentials. Those scoring 70 points or more may apply for permanent residence after three years, while those scoring 80 points or more may apply after just one year.

This framework offers preferential immigration treatment, including extended periods of stay, broader activity permissions, streamlined processing, and the ability to sponsor foreign domestic workers or parents under specific conditions.

**Specified Skilled Worker**

The Specified Skilled Worker (Tokutei Gino) framework addresses labor shortages in designated industries. This category is relevant to operational workforce needs in designated sectors rather than traditional corporate or professional roles.

**Family-Related Statuses**

Dependent statuses of residence are available for qualifying family members (limited to spouses and dependent children) of foreign nationals residing under valid work statuses in Japan, subject to proving financial maintenance capability.

**Permanent Residence**

Foreign nationals meeting residence, conduct, and compliance requirements may become eligible for permanent residence, allowing long-term residence in Japan without activity-specific renewal requirements.

**14.3 Visa Application and Immigration Procedures**

The procedures for obtaining work authorization in Japan vary depending on the applicant's location and the target status of residence.

**Typical Immigration Process**

An overview is provided in the table to the right.

**Certificate of Eligibility (Zairyu Shikaku Nintei Shomeisho, COE)**

For most employment-related cases, the process typically begins with an application for a Certificate of Eligibility (COE) submitted in Japan to the immigration authorities by the sponsoring employer or a certified immigration attorney (Gyoseishoshi). The COE confirms that the applicant meets the requirements for the intended status of residence.

**Visa Application and Entry to Japan**

Once the COE is issued, the applicant generally applies for the entry visa at the relevant Japanese embassy or consulate overseas.

**Typical Immigration Process**

Step	Typical Process
<b>Step 1</b>	Determine appropriate status category based on activities
<b>Step 2</b>	Compile corporate sponsor and applicant documentation
<b>Step 3</b>	Apply for a Certificate of Eligibility (Zairyu Shikaku Nintei Shomeisho, COE) with Japan Immigration
<b>Step 4</b>	Applicant exchanges approved COE for a Visa at an overseas consulate
<b>Step 5</b>	Enter Japan, receive physical Residence Card at the port of entry, and register address at the municipal office
<b>Step 6</b>	Apply for an extension or change of status where circumstances change

Upon landing at a designated Japanese port of entry, eligible foreign nationals are issued a physical Residence Card (Zairyu Card) and must register their residential address at their local municipal office within 14 days.

**Extensions and Change of Status**

For foreign nationals already residing in Japan, immigration procedures involve an extension of period of stay or a change of status of residence, depending on the circumstances.

Changes in employment role, sponsoring entity, or underlying business ownership require proactive notification or updated application procedures with the immigration bureau.

**Required Documentation**

Required documentation varies by immigration category and individual circumstances, but commonly includes:

- corporate information of the sponsoring entity;
- employment contracts, assignment letters, and salary details;
- evidence of academic degrees, graduation certificates, or relevant multi-year professional experience;
- identity documentation and photograph; and
- supporting materials relevant to the intended activities, such as vetted business plans and professional certifications (where applicable).

**Processing Timelines**

Processing timelines vary depending on the immigration category and application volume. COE processing typically ranges from one to three months or longer, making advance planning critical for time-sensitive corporate deployments.

## 14.4 Employer Obligations

Employers sponsoring foreign nationals in Japan should be aware of various ongoing immigration-related compliance obligations. Immigration compliance does not end once a visa or status of residence has been obtained and requires ongoing monitoring and administrative management.

### Immigration Compliance and Sponsorship Responsibilities

Employers must ensure that the sponsored foreign national's day-to-day role, duties, and employment arrangements remain consistent with their authorized status of residence. Engaging an employee in tasks outside their authorized scope violates the Immigration Control Act.

### Status Monitoring and Renewals

Employers should maintain clear internal systems to monitor residence status expiry dates. Allowing an employee to work past their authorized period of stay exposes both the individual and the corporation to severe illegal employment penalties.

### Change Notifications

Both the employer and the employee must file notifications with the Immigration Services Agency within 14 days of events such as:

- changes in employment contracts or entity naming;
- transfers, promotions, or job role modifications; or
- resignation, termination, or retirement.

### Related Employment and Payroll Compliance

Immigration compliance intersects directly with local labor laws, payroll tax withholding, and mandatory enrollment in the national social and labor insurance system (Shakai Hoken / Roudou Hoken).

Unresolved gaps in tax or social security contributions may adversely affect future visa renewals or permanent residency applications.

### Special Immigration Categories

Certain immigration categories, such as the Specified Skilled Worker framework, involve additional employer support or compliance obligations beyond ordinary employment sponsorship requirements.

## 14.5 Permanent Residence and Naturalization

Foreign nationals residing in Japan may become eligible for long-term or permanent immigration status based on their residence history, compliance record, and individual circumstances.

### Overview of Long-Term Immigration Pathways

An overview is provided in the table below.

#### Permanent Residence

Permanent residence requires a continuous lawful residence period of approximately 10 years under standard routes. This is reduced to three years for those with 70 or more points, and to one year for those with 80 or more points under the Highly Skilled Professional framework.

Applicants must demonstrate financial independence, a clean criminal record, and consistent compliance with Japanese tax and social insurance obligations over the preceding years. Under recent legal updates, financial and tax compliance history is subject to rigorous background checks.

Permanent residence allows individuals to reside in Japan without the need for ongoing renewals tied to a specific employment or activity category, although immigration compliance obligations continue to apply.

### Overview of Long-Term Immigration Pathways

Status	General Characteristics
<b>Permanent Residence</b>	Retention of foreign citizenship; eliminates activity constraints and periodic renewals.
<b>Accelerated Permanent Residence</b>	Faster permanent residence eligibility for certain highly skilled professionals
<b>Naturalization</b>	Acquisition of Japanese nationality and passport; requires relinquishing prior citizenship.

### **Accelerated Permanent Residence for Highly Skilled Professionals**

Certain highly skilled foreign professionals may qualify for accelerated permanent residence under Japan's preferential immigration framework, subject to the applicable points-based criteria and other qualifying conditions.

This can provide a significantly shorter route to permanent residence than the standard pathway.

### **Naturalization**

Foreign nationals may apply for Japanese nationality through naturalization under the Ministry of Justice.

Eligibility is assessed based on residence history, financial stability, good conduct, and Japanese language proficiency. Because Japan does not permit dual nationality for adults, applicants are generally required to relinquish their existing nationality upon naturalization.

### **Practical Considerations**

For foreign executives, long-term assignees, and internationally mobile professionals, permanent residence and naturalization considerations may influence relocation planning, family arrangements, employment structuring, and long-term business decisions.

## **14.6 Recent Developments**

Japan's immigration framework continues to evolve in response to changing economic and demographic conditions.

Following the October 2025 Ministerial Ordinance revisions, significantly higher capital, staffing, and language requirements were introduced for the Business Manager category.

Parliamentary amendments enacted in May 2026 also introduced the legal framework for Japan Electronic System for Travel Authorization (JESTA) for visa-exempt short-term travelers, together with increased government application fees.

Recent developments reflect a broader trend toward enhanced compliance expectations, including greater scrutiny of tax compliance history and business substance in immigration applications.

Businesses employing foreign nationals should remain attentive to ongoing legislative and administrative developments to maintain compliance and minimize disruption.



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