

International Assignment Services Taxation of International Assignees

Japan



Country: Japan

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Introduction: International assignees working in Japan

This document is an introduction to the principal provisions governing Japan individual taxation, and serves to inform both the expatriate employee and employer on common tax issues relating to an assignment to Japan.

The information is not intended to form the basis for any action. Therefore, before any action is taken, please consult one of the individuals in Appendix D, or your PwC International Assignment Services (IAS) contact, for advice specific to your facts and circumstances.

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Step 1: Understanding basic principles

The scope of taxation in Japan

1 The main taxes affecting a foreign national working in Japan are the national income tax, local inhabitants tax, and Japanese social security tax. How you as a foreign national will be taxed mainly depends upon your Japanese tax residence status.

The tax year

2 The Japanese tax year runs from January 1st to December 31st.

Methods of calculating tax

3 For resident taxpayers, income tax is calculated, in general, at graduated rates after subtracting any applicable deductions. For non-residents, income tax is imposed, in general, at a flat 20% rate with no deductions available.

Residents

4 Any individual who has a domicile in Japan or has resided continuously for one year or more will be considered a resident. There are 2 types of tax residents in Japan - non-permanent resident (NPR) and permanent resident (PR).

5 An individual who is a resident of Japan and has not maintained a domicile or residence (jusho or kyosho) in Japan for an aggregate of more than 5 years within the preceding 10 years will be considered a non-permanent resident.

This definition of non-permanent resident (described above) is effective from April 1, 2006 and has eliminated the requirement that only continuous residency be counted for purposes of the 5 years test. Additionally, the law has introduced a 10 year look back period from which residency periods (and possibly non-resident days of presence) will be aggregated in determining the 5 year residency.

Please note that Japanese citizens are not eligible for non-permanent resident status; they are considered permanent residents at the outset of their Japanese residency.

6 A permanent resident is a resident other than a non-permanent resident. If you are a Japanese citizen, you are considered a permanent resident of Japan from the day after your arrival.

Non-residents

7 Generally, if an individual plans to stay in Japan for less than one year, s/he will be considered a non-resident. If the individual's stay is longer than initially planned, his/her residence status may change from that of a non-resident to a non-permanent or a permanent resident. The residence status will change at the point that the individual's assignment condition changes and will not be retroactive.

Married individuals

8 For income tax purposes, the income of each spouse is calculated and taxed separately. They must therefore file their own separate tax returns (if required – see paragraphs 63 & 64 for details of filing requirements) separately. Either spouse may claim any applicable dependent exemptions.

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Step 2: Understanding the Japanese tax system and expatriate tax planning

Taxation of employment income

9 As a general rule, most elements of compensation are taxable. However, there are significant opportunities to reduce Japanese income tax through proper planning.

Non-residents

10 A non-resident taxpayer is subject to national income tax only (not local inhabitants tax) at the rate of 20% on salary, remuneration, and allowances received for services rendered in Japan (see paragraph 7 for the definition of a non-resident). No deductions (such as personal exemptions and the earned income deduction) are allowed.

11 A tax treaty may exempt individuals from Japan non-resident tax if they are on short-term (usually less than 6 months) business trips to Japan. This will only apply where the cost of such short-term business trips is not borne by the local entity in Japan (i.e., the expatriate's cost is not charged back to the Japanese entity).

Non-permanent residents

12 A non-permanent resident taxpayer is generally subject to Japanese national and local inhabitants tax at graduated income tax rates on Japanese-source income regardless of where the income is paid.

13 Since non-permanent residents are only subject to Japan tax on their Japan source income, remuneration relating to days worked outside Japan, and which is paid from and remains offshore, is generally not subject to Japan tax. There are conditions that need to be met in order to qualify for this tax relief. Please contact PwC for further details.

Remittance issues for non-permanent residents

14 Total remittances may be subject to Japanese income tax to the extent that the total of annual remittances into Japan and the amount paid in Japan exceed annual Japanese-source income. The taxable remittance cannot exceed total annual worldwide income in the current year. For example, where total worldwide income is 100, of which Japanese-source income paid offshore is 70, if 150 were remitted into Japan, 100 (equal to current year's world wide income) would be subject to Japanese income tax rather than 70. Therefore, due care should be taken with respect to the timing and amount of remittances into Japan.

Permanent residents

15 A permanent resident is subject to Japanese income tax on worldwide income and losses. Offshore losses, e.g., on rental properties, can thus offset Japanese-source income, in general.

Onshore payments

16 If you are paid compensation in Japan, the payment is subject to Japanese income tax withholding and social security tax. The social security tax consists of Health Insurance, Welfare Pension Insurance, and Employment Insurance. Taxable onshore payments are required to be reported on a gensenchoshuhyo, a wage and withholding tax reporting form.

Offshore payments

17 If you are resident in Japan, and continue to be employed by your offshore employer, who administers and pays you outside Japan, there is no income tax withholding obligation in Japan.

18 Payments to non-residents from an offshore employer may be deemed to be made by the employer in Japan and may require income tax withholding if the employer has an office in Japan, e.g. representative office or branch.

Directors

19 Payments made to individuals with Director status are treated differently for Japan income and corporate tax purposes than payments made to individuals with Employee status.

(i) Fixed monthly payments made to Directors, which are properly pre-determined before starting a new director service period, are deductible. Non-periodic payments of compensation, such as bonuses that are pre-determined and indicated as fixed payments in advance to the tax office are deductible for corporate tax purposes in Japan. In addition, performance bonuses paid in proportion to earnings to Directors who engage in the operation of the company's business are also deductible for certain public companies.

Otherwise, non-periodic payments to Directors are generally not deductible for Japan corporate tax purposes.

(ii) The taxable benefit of employer-provided housing (see paragraph 23) for directors will generally not exceed 50% of actual rent. Certain business usage of the premises may allow the taxable benefit to be reduced to 35% of the rent. Luxurious housing (accommodations generally over 240 square meters in size, or accommodations that contain certain facilities considered luxurious, e.g. a swimming pool) does not benefit from tax relief under an economic rent arrangement and is therefore 100% taxable.

(iii) Apart from a few exceptions, directors' compensation earned from a Japanese company is considered entirely Japan-source income. As such, the deduction for workdays outside Japan is not available.

Retirement allowance payments

20 Japanese income tax law provides for the preferential tax treatment of a retirement allowance made pursuant to a retirement from an employer. For expatriates who are taxed as residents, the taxable basis of the retirement allowance is 50% of the net amount remaining after the deduction of a special allowance based upon the number of years of service with the company. In addition, the retirement allowance is taxed separately from other taxable compensation and thus benefits from the lower graduated tax brackets even where the individual's marginal tax rate on other income is in a higher tax band.

21 Directors' retirement payments are tax-deductible in general, for Japanese corporate income tax purposes.

Local inhabitants tax planning

22 Local inhabitants' tax is assessed against individuals who are resident in Japan on January 1st of the year following the year the income was paid. Local inhabitants tax is levied on the preceding year's Japan taxable income and would include amounts taxed during a pre-assignment non-resident period (in such a situation, there will be a 9.5% local tax in addition to the 20% non-resident National tax on employment income received during the pre-assignment non-resident period).

For example: If you resided in Japan as a non-permanent or permanent resident during Year 1 and were still residing in Japan on January 1st in Year 2, you would be assessed local inhabitants tax based on your total Year 1 income (see Appendix C for due dates). You are liable for the remaining balance of the assessed local inhabitant tax, if any, before you leave Japan permanently.

Taxation of common expatriate benefits

Employer-provided housing

23 A housing allowance is taxable in full, whereas employer-provided housing is taxed preferentially. To qualify for the preferential treatment, the company should have an employer-provided housing policy, the lease agreements must be in the employer's name, and the employer must sublease it to its employee (or director) in accordance with company rules. Therefore, the employer must pay the rent directly to the landlord/agency. Where this is implemented, an amount referred to as 'economic rent' (approximately 10%-20% of rental cost in the case of an employee, depending on the circumstances) is assessed as the taxable benefit. The actual amount is determined by utilizing a formula that involves the size and assessed value of the property. Landlords are often reluctant to sign leases with companies outside Japan. As such, housing is usually provided by an onshore entity. Note that the economic rent for directors is usually 35% or 50% of the actual rent value as previously mentioned (see paragraph 19ii).

Legal rent

24 If the employee pays back half or more of the 'economic rent' (see above) to the employer (known as 'legal rent') on an after-tax basis, the imputed taxable benefit for employer-provided accommodation is reduced to zero.

Utilities and furniture leases

25 Utilities and furniture leases paid or reimbursed by the employer are fully taxable.

Home leave

26 Expatriates (and their immediate family) on assignment for more than two years can benefit from one tax-free home leave trip a year, for approximately a year of service actually rendered in Japan, provided that the expatriate returns directly to his/her home country for the home-leave stay and that the family members travel during the same period as the taxpayer. Note that the spouse's home country may also qualify as the destination for home leave.

School tuition

27 An amount paid by the employer for a child's tuition is a taxable benefit. However, an amount paid by the employer as a 'contribution' to a qualifying scholarship program is not considered to be a taxable benefit to the expatriate in Japan. However, the 'contribution' may not be fully deductible for Japan corporate tax purposes so a careful analysis should be performed to ensure that the savings in the reduction of the Japan individual income tax outweigh the potential loss of the Japan corporate tax deduction (in part or in whole).

Moving expenses

28 Payments or reimbursements for reasonable moving expenses are not included in taxable income (however, storage expenses are usually taxable). Please note that cash allowances provided for moves into Japan are generally fully taxable.

Language lessons

29 Language lessons for the employee may be provided by the employer without incurring a tax liability. Lessons provided to the employee's family, however, are fully taxable.

Fringe benefits

30 Non-cash fringe benefits are taxable, such as employer-provided private health insurance, employer contributions to both traditional home country pension plans as well as '401(k)' plans, and certain employer contributions to home country social security schemes (unless required by a social security agreement with Japan).

Corporate tax coordination

31 The timing of a corporate tax deduction in Japan and the recognition of income for individual income tax purposes generally occur at the same point in time.

Audits

32 The Japanese tax authorities conduct very regular corporate, withholding tax, and individual income tax audits in Japan; possibly once every three years.

Taxation of investment income

In general, foreign source investment income received overseas (not remitted to Japan) is not subject to Japanese tax for non-permanent residents. However, since permanent residents are subject to tax in Japan on their worldwide income, their foreign investment income is subject to Japan individual income tax.

Interest

33 Interest income from Japanese sources on bank deposits and bonds is taxed separately through withholding at source. Residents of Japan are subject to a separate fixed withholding tax of 20% (15% for national tax and 5% for local tax) on interest income paid in Japan. Non-residents are subject to a separate fixed withholding tax of 15% (national tax) on interest income paid in Japan (however, this tax rate could differ depending on any applicable tax treaty provisions). Foreign-source interest income is subject to total taxation after being combined with other types of income at the graduated tax rates.

Dividend income

34 Dividends arising from listed stock transacted through Japan-licensed financial institutions are taxed preferentially. Dividends through non-Japan licensed financial institutions are reportable on the tax return in the normal way, as in the past.

- Dividends from listed domestic stocks (where the shareholder owns less than 5% of the stock) and distributions from publicly traded stock investment funds will be taxed at a total rate of 10% (7% national and 3% local) through withholding for the period up to December 31, 2011. The total tax rate will be increased to 20% (15% national and 5% local) subsequently.
- Certain dividends of unlisted stocks of Japanese corporations, so called "small dividends," can be taxed (by election) at the rate of 20% (national) through withholding without reporting it in the tax return. (In addition, the dividend is also subject to 10% local tax.

Securities

35 Capital gains arising from listed stock transacted through Japan-licensed financial institutions are taxed preferentially.

- Capital gains from non-Japanese licensed financial institutions will be taxed at 15% for national tax purposes with a 5% local tax. The gains are reported on the tax return separately from other income.
- Capital gains from listed stocks sold through Japan-licensed financial institutions will be taxed at a rate of 10% (7% national + 3% local), from January 1, 2003 to December 31, 2011; then at 20% (15% national + 5% local) from January 1, 2012.
- A taxpayer can open a special trading account (tokutei kouza) which enables a tax withholding of 10% at source on capital gains realized through December 31, 2011, from listed stock (instead of reporting the income on a tax return).

- Capital losses from listed stock (companies listed on a publicly-traded index or averaged and transacted through a Japan-licensed financial institution) may first offset other taxable gains from the sale of shares, and any remaining losses may offset dividend income from listed domestic shares under certain special conditions. Capital losses from listed domestic stock can be carried forward for up to three years.

36 For a non-permanent resident, income from the sale of securities outside Japan is non-taxable in Japan if the proceeds are not remitted to Japan. Thus, if Japanese securities are sold through a non-Japan broker and the proceeds are not remitted into Japan, the capital gain will, in general, not be subject to Japanese taxes.

Stock options

37 In general, income which derives from the exercise of an employee stock option issued by a non-Japan company is treated as employment income and subject to Japanese national and local inhabitants tax at the graduated income tax rates. In addition, gains from the sale of the equity acquired are subject to income tax at 15% national and 5% local. A non-permanent resident taxpayer will only be taxed on Japan source income arising from the exercise and not on any capital gain as long as the sales transaction is made outside Japan and the proceeds are not remitted to Japan.

Sale of property

38 Gains from the sale of property (excluding securities) may be subject to tax at special rates. Special rates will apply depending on the nature of the property, the amount of the gain, and the length of time that the property was held.

Taxation of rental income/loss

39 A permanent resident must report worldwide income on his or her tax return. If s/he suffers a loss from a rental activity, these losses may generally be used to offset other taxable income in the current year.

Taxation of miscellaneous income

40 A resident individual is subject to Japanese income tax on miscellaneous income at the regular graduated tax rates. Miscellaneous income might include royalties, compensation for manuscripts, consulting, or lectures, and other income not specifically included in other categories. Ordinary and necessary expenses incurred to generate the income can be deducted if proper receipts are kept. Expenses are deductible only to the extent of income (i.e. miscellaneous losses cannot offset other income nor can they be carried forward to future years).

Adjustments to income

Employment earned income deduction

41 A resident taxpayer who has earned income from employment is eligible for an earned income deduction for the purposes of both national income and local inhabitants tax. The amount of the deduction is based on the amount of the employment income and is determined by reference to a special deduction table.

Medical expense deduction

42 Unreimbursed medical expenses are deductible to the extent that they exceed the smaller of 5% of income or 100,000 Yen. The expenses can be deducted for both national and local inhabitants tax purposes. The maximum deduction is limited to 2,000,000 Yen. Original receipts are required, and must be attached to the tax return.

Deduction for casualty losses

43 Casualty losses, net of amounts recovered by insurance, are deductible only to the extent that they are in excess of 10% of income. The losses can be deducted for both national and local inhabitants tax purposes.

Deduction for life (or private pension) and earthquake insurance premiums

44 Life (or private pension) insurance premiums paid to a Japanese agency in local currency are deductible to a limited extent in computing national and local inhabitants taxes. Earthquake insurance premiums are deductible for the purposes of both national and local inhabitants tax to a limited extent. The insurance certificate is required, and must be attached to the tax return.

Deduction for social security tax and Allowance of FTC

45 The entire amount of Japanese social security tax paid or withheld is deductible against taxable income for the purposes of both national and local inhabitants tax. Furthermore, pursuant to bi-lateral treaties, foreign social security tax may also be deductible. Please consult your PwC Japan advisor for more details.

Additionally, Japan laws may allow a limited tax credit for foreign income taxes paid on foreign source income in order to avoid double taxation. Bi-lateral tax treaties may affect this allowable credit. Please note that the laws governing the allowance of a foreign tax credit in Japan are very complicated. Please consult your PwC Japan advisor for more details.

Deduction/Credit for charitable contributions or donations

46 Qualified contributions or donations (excluding those made in connection with admission into a school) which total in aggregate over 5,000 Yen are deductible in computing the national tax. The total deduction is limited to 40% of income, less 5,000 Yen. Note that the definition of a qualified contribution is extremely restrictive. Certain donations to international schools in Tokyo are deductible for tax purposes.

47 For local tax purposes, contributions to the 'Community Chest', the Japan Red Cross, the Prefecture and Municipality, and groups approved by each prefecture/municipality under their regulations, qualify as creditable charitable contributions. The Standard tax credit is 10% of the net after 5,000 yen has been deducted from the qualified contribution amount; and a Special tax credit, subject to a certain formula, may also apply. In addition, different local tax offices may have a different list of qualified charities. To ensure a tax credit, the local tax office should be consulted before the contribution is made.

48 Generally, for both national and local tax purposes, a certificate from an appropriate official at the charitable organization authorizing the donation deduction is required, and must be attached to the tax return.

Social security taxes

49 An employee whose salary is paid in Japan by a local employer, including a Japanese branch of a foreign company, is generally liable to pay Japanese social security tax. The local employer would also have a social security tax obligation. The rates change each year. Please see below for the rates that are in effect as of September 1, 2009. The insurance premiums shown below are applicable for the social insurance scheme administered by the Japanese government. The rates for the social insurance schemes administered by certain trade associations may differ from the standard rates listed below.

For expatriates who are legally employed by their home country entity and are temporarily seconded to Japan on work assignments, most Japanese companies have not paid Japan social security taxes on offshore payments. In practice, the authorities have not assessed Japan social security taxes on these offshore payments but it is unclear as to whether the authorities may change this position in the future.

If the individual qualifies for a certificate of coverage through a bi-lateral social security tax treaty with Japan, then the individual may be exempt from the Japan social security tax obligation.

Japan social insurance taxes are a complicated area with a great deal of uncertainty. For more details, please consult your PwC Japan advisor.

	Employee's share %	Employer's share %	Total of new rates
Health insurance (note 1):			
on monthly salary	4.10%	4.10%	8.20%
on bonus	4.10%	4.10%	8.20%
Welfare pension (note 2):			
on monthly salary	7.852%	7.852%	15.704%
on bonus	7.852%	7.852%	15.704%
Employment insurance:			
on monthly salary	0.4%	0.7%	1.10%
on bonus	0.4%	0.7%	1.10%

Notes: (1) No health insurance premium is due on such portion of monthly salary amounts over and above ¥1,210,000. The ceiling applicable to non-periodic payments such as bonuses is ¥5,400,000 annual (fiscal year ending March 31) total. In addition, long-term care insurance "Kaigo Hoken" of 0.595% is due for an employee aged 40 years old and over but less than 65 years old. As mentioned in paragraph 45 above, social security contributions are deductible for both national and local tax purposes.

Notes: (2) No welfare pension insurance premium is due on such portion of monthly salary amounts over and above ¥620,000. The ceiling applicable to non-periodic payments such as bonuses is ¥1,500,000 per payment.

The rate of 15.704% will be applied from September 2009 to August 2010.

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Step 3: What to do before you arrive in Japan

Importance of proper planning

50 Employers and expatriates are strongly encouraged to contact PricewaterhouseCoopers for tax advice prior to the employee's transfer. This will provide an opportunity to structure a tax-effective compensation package in order to minimize the overall cost of placing tax-reimbursed expatriates in Japan. Employees whose taxes are not reimbursed by their employers are also encouraged to consult PricewaterhouseCoopers for tax planning advice that may reduce their Japanese tax exposure.

Visas

51 It is important that expatriates working in Japan obtain a proper work visa. As the approval process takes approximately six to eight weeks, it is recommended that the application be made two or three months prior to the commencement of the assignment.

Employment contracts

52 We strongly recommend that the terms and conditions relating to a secondment to Japan be set out in a written agreement.

Bank accounts

53 If you are to be paid by an employer located outside Japan, payments should be made to a bank account outside Japan so that remittances can be properly managed to avail yourself of the overseas workdays deduction (if applicable).

54 Nonetheless, you will probably need to obtain a bank account in Japan for yen-based expenses, e.g., Japan tax payments. Personal checks are not widely used in Japan and payments are frequently made via wire transfer. For personal expenses, international ATMs are available that will allow you to withdraw Japanese yen from your overseas account.

55 Arrangements to remit money into Japan should be made as necessary. It is often easier to open an account outside Japan with a bank that has a branch in Japan to facilitate the making of deposits and remittances. Moreover, the remittance charges are often less if you deal with the same bank.

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Step 4: What to do when you arrive in Japan

Importing personal possessions

56 When arriving in Japan, you should file (in duplicate) a 'Notice of Unaccompanied Baggage' with the Customs agent for those belongings which will arrive separately by air or sea freight. Typically, this form is prepared and filed upon arrival at the airport in Japan. You need to ensure that the Customs agent stamps the duplicate forms and returns one copy to you prior to leaving the Customs area of the airport.

Establishing residence

57 As a foreign national intending to reside and work in Japan, you are required to register with the ward office of the area in which you live within 90 days of your arrival in Japan. Following your registration, an Alien Registration Card will be issued to you. This registration is also required for local inhabitants' tax purposes. Typically, this registration is completed once you have received your work visa.

Economic rent calculation

58 Where an economic rent arrangement is to be implemented, you should ask either your tax advisor or your employer to work with your landlord / letting agent in order to determine the specific amount of economic rent attributable to the provision of your local housing (see paragraph 23).

Travel schedule

59 It is advisable to maintain a travel schedule recording details of all your business and personal travel outside Japan. The schedule should show the dates of departure from, and arrival in Japan, the names of the countries you visited, and the purpose of your trips. In general, if you wake up in Japan, it is considered a Japan day for Japan tax purposes. If trips to the US are made, the state visited should also be recorded.

Example of travel schedule (calendar year basis)

Japan travel log			Number of days outside Japan on:		
Date left Japan	Date Returned	Country(ies)	Business	Home Leave	Vacation
09/03/2009	09/15/2009	USA (NY)	12		
11/27/2009	12/16/2009	Austria			9
		Germany			5
		UK			5
12/22/2009	01/01/2010	USA (CA)		9	

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Step 5: What to do at the end of the year

Tax returns and tax payments

60 Tax payments are deferred if you are paid via an offshore payroll, whereas monthly withholding is required if you are paid onshore. Note that you may receive your remuneration both onshore (within Japan) and offshore (outside Japan).

National tax

61 If your entire compensation is paid outside Japan, no national tax payment is required to be made during the year of arrival. Your arrival year tax return must be filed by March 15th of the following year and note that ***no extensions of time to file are available***.

If you have set up automatic bank transfer (ABT) for tax payments, the payment will be withdrawn from your bank account in Japan on or around April 15th, i.e., the tax payment is due approximately one month after the filing due date.

62 Thereafter, most expatriates must pay estimated provisional taxes on July 31st and November 30th. These provisional taxes are pre-payments of the current year national tax liability. Each payment approximates 1/3 of the prior year's tax liability. If you set up ABT for the payment of the national tax balance due, these provisional tax payments will also be withdrawn from your bank account. You will receive an assessment notice from the tax authorities regarding the exact amount that needs to be paid.

Filing threshold

63 If you are paid entirely in Japan, where your national tax is withheld at source from your salary and if your total compensation is less than 20 million Yen, a final calculation (and adjustment, if needed) is performed by the company in December to ensure the correct amount of national tax has been withheld during the year. As a result, you will not need to file a tax return to pay any more national tax on this employment income on the assumption that you do not earn other reportable income.

64 If you are paid entirely or partially outside Japan, or if you are paid entirely in Japan and your total employment income is 20 million Yen or more, a tax return must be filed.

Local inhabitants tax

65 If your compensation is paid outside Japan, the current year local tax, which will be noticed by the local office subsequently, can either be paid in one lump sum on June 30th of the following tax year, or in four equal installments on June 30th, August 31st, October 31st, and January 31st of the following year. Automatic bank transfer is also available for local inhabitants tax payments. If your compensation is subject to withholding, then local tax will be withheld from your monthly salary beginning in June of the tax year following the year concerned, through May of the next year.

(Note: Local inhabitants tax is only assessed against individuals who are resident of Japan on January 1 of the current year. Therefore, if an individual permanently departs Japan before the end of the calendar year then local inhabitants taxes will not be assessed on the current year income.)

Late filing penalties and interest

66 The Japanese tax authorities do not allow extensions of time to file the tax return. If the tax return is filed late, a 5% (or possibly 10% - 20%) penalty is immediately assessed on the tax balance due. In addition, interest for the late payment of tax is assessed at 4.3% per annum for the first two months and increasing to 14.6% per annum thereafter.

Payment of tax due

67 Japanese taxes can be paid in person either at a post office or at a Japanese bank, or via the automatic bank transfer method mentioned previously. The Japanese national tax and ward offices will send national provisional income tax and local inhabitants tax assessments on a timely basis together with payment slips.

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Step 6: What to do when you leave Japan

In general

There are two ways in which your Japanese income tax matters can be settled when departing Japan.

Pre-departure final tax return and payment of outstanding taxes

68 Expatriates are required to file their national tax return and pay any taxes due before leaving Japan, including any preceding year's outstanding local inhabitant's tax payments. If the national taxes on the current year income are not settled before departure, then a late-filing penalty may be assessed on the Japan tax return that is filed after permanent departure. No local inhabitants tax is due on income earned in the year you leave Japan, but any unpaid local tax relating to the previous tax year will need to be settled.

Appointment of a Tax Administrator

69 Alternatively, prior to his/her departure from Japan, the expatriate can appoint a Japanese resident (for example, the company's HR person) as tax administrator to act on your behalf in relation to your Japanese tax affairs. This will allow the tax administrator to file the national tax return on behalf of the taxpayer by March 15th of the subsequent year. Such an arrangement may be advantageous for expatriates paid outside Japan whose taxes are reimbursed by their employer. It is important to file the Tax Administrator (TA) forms before the expatriate's departure, as the tax office will assess a late filing penalty and interest for the late payment of tax (since without a TA in place, you are required to file a tax return and pay any outstanding tax prior to your departure).

Tax Refund

70 If you are entitled to a refund and choose to file a tax return prior to departure, then you will need to leave your bank account in Japan open so that the tax office can deposit the refund into your account. If, however, a tax administrator is appointed, the tax office will refund the money to the tax administrator.

Reporting permanent departure

71 You should surrender your alien registration card to the immigration authorities at the airport at the time of your permanent departure. You can also turn this in at your local ward office. This will officially indicate your departure to the respective authorities and help support the fact that you have terminated your Japanese residency.

Timing of departure

72 To minimize your Japan tax burden, we advise you to seek advice regarding the timing of your permanent departure from Japan. Any payments, equalizations, or bonuses received after departure relating to your Japanese employment may be subject to tax in Japan at the non-resident rate of 20%.

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Step 7: Other matters requiring consideration

Inheritance and gift tax

73 Inheritance tax is a national tax levied on beneficiaries of an inheritance. If an individual inherits property while s/he resides in Japan (unlimited taxpayer), inheritance tax may be levied on the property inherited, whether or not the deceased resided in Japan at the time of his/her death. However, if the beneficiary resides abroad (limited taxpayer), inheritance tax is only levied on those assets situated in Japan at the time of the decedent's death. Beneficiaries who are Japanese nationals may be unlimited taxpayers if they resided in Japan within 5 years of the inheritance. Property subject to inheritance tax includes tangible, intangible, real or personal property, unless otherwise specifically exempt under the law. The property is valued in accordance with the provisions of the law.

74 If the deceased made gifts to a beneficiary or legatee within the three-year period prior to his/her death, these gifts are added to the taxable assets inherited. Gift tax previously levied on these gifts can be taken as a credit against the inheritance tax liability.

75 The amount of inheritance tax is first determined by aggregating the net taxable assets acquired by all beneficiaries in accordance with the statutory inheritance proportions. The graduated inheritance tax rates are then applied.

Measures to integrate inheritance and gift taxes have been implemented:

- An irrevocable elective system regarding the calculation of inheritance taxes at the time of inheritance has been adopted. Gift tax paid previously may be deducted from the total amount of inheritance tax calculated on the gifted and inherited property.
 - Qualified transfers are those from parents aged 65 and older made to their children who are aged 20 or older.
 - Gifts of up to a total of ¥25 million will be exempt from gift tax. Several gifts can be made tax-free as long as the total gifts do not exceed the ¥25 million threshold.
 - Gifts are taxed at a rate of 20% on the amount exceeding the accumulated threshold of ¥25 million. The amount of gift tax, if any, will be treated as a prepayment of tax against a future inheritance tax liability.
- Exemption for residential housing:
 - ¥35 million can be gifted from parents (no age qualification applies) to children (aged 20 years and over) for the purpose of purchasing or additional renovation of residential housing (without any gift tax consequences) until December 31, 2009. Note that this is an additional exemption threshold of ¥10 million over the gift threshold of ¥25 million; no additional ¥25 million exemption is available.

• Tax rates for Inheritance and Gift:

Japanese Inheritance tax rates

Over JPY	Not over JPY	Tax rate	Deduction
0	10,000,000	10%	0
10,000,000	30,000,000	15%	500,000
30,000,000	50,000,000	20%	2,000,000
50,000,000	100,000,000	30%	7,000,000
100,000,000	300,000,000	40%	17,000,000
300,000,000	And above	50%	47,000,000

Basic estate allowance for inheritance tax – JPY 50,000,000 + (JPY10,000,000 X number of the legal heirs)

Japanese Gift tax rates

Over JPY	Not over JPY	Tax rate	Deduction
0	2,000,000	10%	0
2,000,000	3,000,000	15%	100,000
3,000,000	4,000,000	20%	250,000
4,000,000	6,000,000	30%	650,000
6,000,000	10,000,000	40%	1,250,000
10,000,000	And above	50%	2,250,000

Annual basic exemption for gift tax (*) - JPY 1,100,000

(*) *This basic exemption will not be applied to the irrevocable elective system mentioned above.*

76 Expatriates, regardless of their status as non-permanent residents or permanent residents, have a Japanese inheritance tax exposure on any amounts inherited while resident in Japan.

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Appendix A: National and Local Inhabitants tax rates

2009 National tax rates

Taxable income (1) JPY	Not over (1)	Tax rate (2)	Subtract product (1) & (2)
0	1,950,000	5%	0
1,950,001	3,300,000	10%	97,500
3,300,001	6,950,000	20%	427,500
6,950,001	9,000,000	23%	636,000
9,000,001	18,000,000	33%	1,536,000
18,000,001	And above	40%	2,796,000

2009 Local inhabitants tax rate (related to income earned during the 2009 tax year, tax payable in 2010)

Taxable income	Standard tax rate
Flat tax based on taxable income	10%

Per capita tax 4,000, in general.

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Appendix B: Effective tax rate schedule

Effective tax rate schedule (2009)

Gross employment income level (JPY)	Japan source income	National tax	Local tax	Effective tax rate (National tax)	Effective tax rate (Local tax)	Combined
10,000,000	9,593,023	755,100	612,700	7.6%	6.1%	13.7%
15,000,000	14,389,534	1,912,500	1,066,500	12.8%	7.1%	19.9%
20,000,000	19,186,046	3,415,980	1,522,000	17.1%	7.6%	24.7%
30,000,000	28,779,069	6,852,000	2,433,500	22.8%	8.1%	30.9%
50,000,000	47,965,116	14,142,400	4,256,000	28.3%	8.5%	36.8%

Assumptions

Taxpayer is:

- Married with two children;
- Non-permanent resident for entire calendar year;
- Compensation is 100% paid outside Japan;
- 14 business days outside of Japan;
- 21 days of home leave;
- 2009 tax rates, exemptions, and deductions;
- Special Tax Credits: None for both national and local taxes;
- Includes ¥4,000 per capita tax.

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Appendix C: Tax payment timetable for expatriates

Tax payment timetable for expatriates employed and paid offshore by an offshore entity

(2010 Calendar Year)

December 2009:	Receive your Tax Organizer from PricewaterhouseCoopers.
January 29, 2010:	Completed Tax Organizer returned to PricewaterhouseCoopers.
Prior to March 15:	Apply for the automatic bank transfer (ABT) method for payment of national and local tax if desired.
March 15, 2010:	Japanese tax return due for 2009. Payment of National Tax must be made on this date unless you have elected payment via Automatic Bank Transfer (ABT).
April 22, 2009:	If you have elected payment via ABT, the tax office will withdraw the balancing national tax amount from your account.
June 30, 2010:	2010 Local Inhabitants Tax payment is due on 2009 income (either lump-sum or 1st installment).
August 2, 2010:	1st Provisional National Tax payment is due for 2010.
August 2, 2010:	2nd Installment of Local Inhabitants Tax is due.
November 1, 2010:	3rd Installment of Local Inhabitants Tax is due.
November 30, 2010:	2nd Provisional National Tax payment is due for 2010.
January 31, 2011:	Fourth (Final) installment of Local Inhabitants Tax is due.

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Appendix D: Japan contacts and offices

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