

# DOING BUSINESS

IN JAPAN

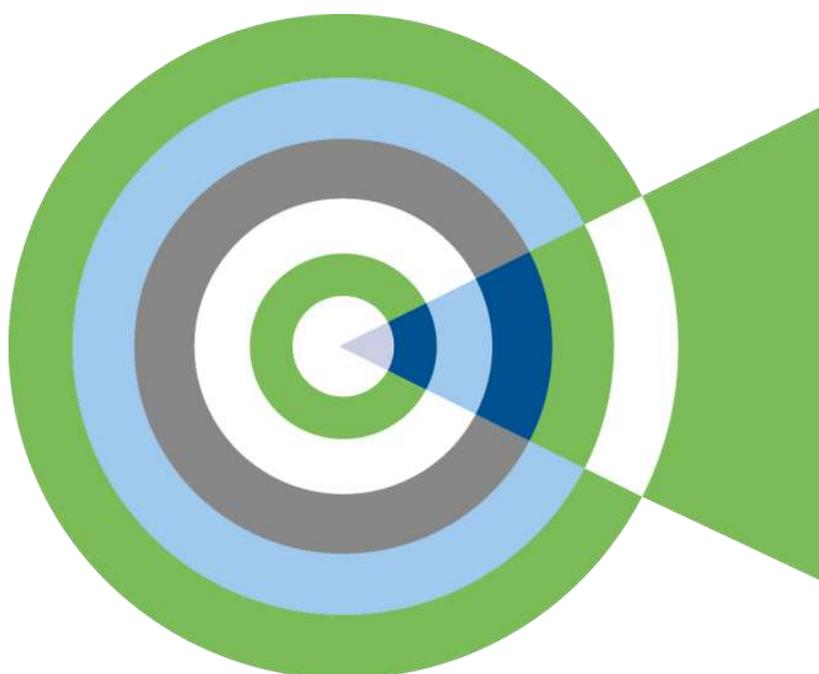


The network  
for doing  
business

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# 1 – INTRODUCTION

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UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 90 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Japan has been provided by the office of UHY representatives.

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A detailed firm profile for UHY's representation in Japan can be found in section 8.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current in January 2017.

We look forward to assisting you start up business in Japan.

## 2 – BUSINESS ENVIRONMENT

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Japan is one of the world's economic superpowers and its prosperity is based on its efficient industries (automobile, information and communication technology and consumer electronics).

Japan has accelerated high-level technology development in the environmental, medical care and biotechnology sectors. Japan has also promoted a culture-oriented industry referred to as '**Cool Japan**' project (\*). Japan provides warm welcome for a lot of tourists and various visitors.

\*It is narcissistic but we are very much keen to promote our attractive art and culture, in particular, entertainment, animation and gaming to the world based on this project.

### COUNTRY BACKGROUND

#### POPULATION

Japan has an approximate population of 127 million inhabitants, with an average population density of 336 people per square kilometre (490 per square mile).

#### AREA

Japan covers 377,970km<sup>2</sup> and is made up of 47 local government districts.

#### LANGUAGE

The national language is Japanese.

Since most Japanese people study English during their time as a student, English is the most popular foreign language.

#### LEGAL SYSTEM

The Japanese constitution provides the democratic foundation for the separation of state powers (i.e. legislative, judicial and governmental). Judicial power is vested in the Supreme Court and lower courts established by law. Lower courts are divided into four bodies: high courts, district courts, family courts and summary courts.

#### CURRENCY

The currency of Japan is the yen (JPY).

#### COST OF LIVING

The standard of living and living costs in Japan are known for being one of the highest in the world. Some of the world's most expensive pieces of real estate would be found in central Tokyo Metropolitan. Although real estate prices once declined due to massive earthquake in March 2011, upcoming Tokyo Olympics in 2020 is now being a trigger for them to rise in Tokyo again.

#### EMPLOYMENT

The Japanese labour market was characterised by lifetime employment and seniority-based wage systems until the mid-90s, but we have seen certain changes in these enterprises' employment practices since then. In 2016, the labour force was 66.49 million, with unemployment rate standing at 3.1%.

## ECONOMY

### GROSS DOMESTIC PRODUCT (GDP)

In 2015, the nominal GDP was 532.2 trillion yen (USD 4.4 trillion), the third largest in the world after United States and China.

### RECENT ECONOMIC HISTORY

Japan suffered a long-term economic recession during the 1990s after its assets price bubble in the late 1980s broke. The government adopted policies to promote exports and Japan's economy experienced a gradual recovery trend from 2003–2007, with steady economic growth.

However, the global financial crisis dried up global demand for Japan's exports and Japan went into recession in 2008. Government stimulus spending helped to bring the Japanese economy back on track in late 2009 and 2010.

Subsequently, the massive earthquake in March 2011 caused enormous damage in the north-eastern coastal region and Japan is facing rebuilding struggles.

In order to achieve an early end to deflation and break free of economic stagnation, in January 2013, the Government of Japan set forth its "three-arrows" strategy (also known as "Abenomics" portmanteau of Mr. Abe, Prime Minister of Japan, and Economics). Based on this, economic circumstances have turned toward recovery, as exemplified by an exchange rate that shifted toward the depreciation of the yen, and significant increases in stock prices. Changes have also been observed in the prolonged situation of deflation.

Since Japan has strong reliance on the USA economy, it is important to keep good relationship with new president of the USA.

### MAIN TRADING PARTNERS (2015)

TABLE 1

*Main export destinations*

COUNTRIES	% OF TOTAL EXPORTS
United States	20.1
People's Republic of China	17.5
South Korea	7.0
Taiwan	5.9
Hong Kong	5.6
Thailand	4.5
Singapore	3.2
Germany	2.6
Australia	2.1
Vietnam	2.0

**TABLE 2**  
*Main countries of origin for imports*

COUNTRIES	% OF TOTAL IMPORTS
People's Republic of China	24.8
United States	10.3
Australia	5.4
South Korea	4.1
Saudi Arabia	3.9
UAE	3.6
Taiwan	3.6
Malaysia	3.3
Thailand	3.2
Germany	3.1

### STOCK EXCHANGE

The Tokyo Stock Exchange (TSE) is the third largest stock exchange in the world. TSE had 3,539 listed companies with a combined market capitalisation of USD 4.97 trillion as of December 2016 which is third biggest stock exchange after New York Stock Exchange and NASDAQ.

TSE is broken into three separate parts: large companies, mid-sized companies ('JASDAQ') and the market of the high-growth and emerging stocks ('Mothers') for venture companies. The Osaka Securities Exchange (OSE) and Nagoya Stock Exchange (NSE) are also important stock exchanges for the local venture companies in Japan.

## 3 – FOREIGN INVESTMENT

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There are a number of reasons for investing in Japan.

Key reasons why foreign investors are attracted to Japan is because the country offers:

- A large consumer market with a population about 127 million
- A financial centre
- A key trading hub in Asia
- A high degree of control over the Asian market
- Highly advanced technology
- A leading centre for innovation, research and development in Asia.

### INVESTMENT SUPPORT

#### JAPAN EXTERNAL TRADE ORGANISATION (JETRO)

JETRO is a governmental organisation with more than 70 overseas offices in over 50 countries across the world. For foreign companies planning to start a business in Japan, JETRO's Invest Japan Business Support Centre (IBSC) will provide consultation advice and facilities for establishing a business base.

JETRO IBSC staff and advisors provide information and consultation advice, including on:

- Market and industry information
- Relevant legal systems
- Taxation, labour and legal issues
- Networking with potential business partners
- Finding human resources and an office location
- Information on the regulations and incentives from national and local governments.

National and local authorities offer a number of incentives to promote investment. These include;

- Preferential tax policies such as reduction or exemption of business taxes
- Preferential fixed asset taxes and real estate acquisition taxes
- Subsidies
- The provision of land and buildings

In addition to information on these incentives, IBSC can arrange meetings with representatives from national and local authorities.

#### THE OFFICE OF TRADE AND INVESTMENT OMBUDSMAN (OTO)

The Office of Trade and Investment Ombudsman (OTO) is a government body for the promotion of investment from abroad. OTO is the contact point when problems arise due to government regulations for export to or investment in Japan. OTO can contact relevant government ministries and agencies including customs houses, counsellor offices, regional economic trade and industry bureaus, general quarantine offices, animal quarantine stations, plant epidemic prevention stations, regional transport bureaus, embassies and consulates, as well as JETRO offices.

## 4 – SETTING UP A BUSINESS

Foreign investors who intend to set up a business in Japan can choose from a wide range of legal entities.

The most common legal entities in Japan are:

- Representative offices
- Branch offices
- Companies (private and public).

It is possible to choose another entity type depending on the situation.

### REPRESENTATIVE OFFICE

Before officially starting business in Japan, foreign investors can use representative offices as a temporary basis for preparation of their activities.

Direct business operations are not permitted for representative offices, only indirect business operations such as market surveys, collecting information and advertising. A representative office is not allowed to open bank accounts or lease real estate in its own name. For such activities, a headquarters' manager or a representative office manager must use his/her name. The establishment of a representative office does not need to be registered with any administrative authorities.

However, representative offices established by foreign banks, insurance companies, security companies, or other financial institutions are exceptions; prior notification must be provided to the Financial Services Agency for such representative offices (as stipulated in the Banking Law, Securities Exchange Law and other laws).

Set-up procedures for a representative office are outlined in Table 3 below.

TABLE 3

*Setting up a representative office*

POINT	REPRESENTATIVE OFFICE
Purpose	To gather information and advertise in Japan.
Tax Condition	Not considered as a 'permanent establishment' (PE) in Japan. However, if a representative office receives income on the sale or rental of real estate or receives interest and dividends (withholding tax 20.120% for a non PE), tax is imposed. *In addition, if the representative office exceeds the permitted functions outlined above, there is a risk that it will be subject to full Japanese taxation. The profits that would become subject to taxation under these circumstances would then be subject to negotiation between the company and the Japanese tax authorities.
Set-up procedures	1) Define the name and representative of representative office no registration is necessary. - Below procedures are necessary for foreign representative as individual- 2) Acquire a certificate of status of residence from the Ministry of Justice's

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 Immigration Bureau

- 3) Submit certificate of status of residence to the Japanese consulate in the representative's home country and a Japanese consulate visa
  - 4) After entering Japan, the representative determines a place of residence and performs alien registration procedures
  - 5) Open bank account (in the case of a representative office only a personal account can be opened)
  - 6) Register employee information with the Labour Standards Inspection office, Public Employment Security office, Social Insurance office and Tax office (for wage payment related information)
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## BRANCH OFFICE

Foreign investors may find setting up a branch office is the simplest way to establish a business base in Japan.

A branch office can start business operations after deciding a base of operation, appointing the branch representative (must have address in Japan) and registering all the necessary information. A Japanese branch office can open bank accounts and lease real estate in its own name. However, a branch office does not have independent corporate status. It is treated as a part of a foreign company incorporated overseas. The foreign company is ultimately responsible for all the debts and credits incurred by the business activities of its Japanese branch.

A branch office may begin business operations after registering its establishment with the Legal Affairs Bureau; branch offices of foreign companies must register in accordance with the registration requirements for Japanese corporations of most similar form to that of the foreign company. In order to select the most similar form of Japanese corporations and to determine the information to be registered, reference should be made to the foreign company's articles of incorporation, establishment certificate, registration certificate, and other such documentation. Once the details of the branch office to be registered—the address of the branch office, there presentative in Japan, the date of establishment of the branch office and the disclosure method for balance sheets—the information that must be registered can be ascertained.

Documents certifying the information to be registered must be submitted when applying for registration of the establishment of a branch office, and the certified documents must be issued by the competent authorities in the home country of the foreign company. It is usually convenient to use an "affidavit" on information for registration certified by that country's embassy/consulate in Japan.

## SUBSIDIARY COMPANY

When foreign companies intend to establish a subsidiary company of their existing business in Japan, they must choose a type of corporation.

Japanese Corporation Law recognizes four types of company entity:

- Joint-stock company (*Kabushiki Kaisha*—KK)
- Limited liability company (*Godo Kaisha*—GDK)
- Unlimited partnership (*Gomei Kaisha*-GMK)
- Limited partnership (*Goshi Kaisha*-GSK).

The last two types of company are granted corporate status under the Japanese Corporation Law, though rarely chosen in practice because equity participants bear unlimited liability.

All types of subsidiary companies are established by completing legal procedures and are required to be registered. Once the registration is processed, companies can open bank accounts, rent or lease property and engage in activities as a legal entity. A Japanese subsidiary company is considered a separate entity from the foreign company, so all debts and credits generated by a subsidiary belong to the subsidiary.

Limited liability companies (LLC) and Limited liability partnership (LLP) are also recognized in Japan but these are not so common and limited mainly for specialist business.

Non profit organization (NPO) and Non-governmental organization (NGOs) are recognized by the other legal basis and these are convenient for non profit business organization.

#### JOINT-STOCK CORPORATION (KABUSHIKI KAISHA –KK)

A *Kabushiki Kaisha* (KK) is the most common form of corporate entity used in Japan by foreign investors. Its shareholders' liability is limited to their capital contributions. The formation procedures for a KK are set out in Table 4 below.

TABLE 4

*Setting up a joint-stock corporation*

STEPS	INFORMATION/ACTIONS REQUIRED
1) Determination of profile	Company name, company objectives, address of head office, paid-in capital, accounting period, bank for accepting share subscription money, existence of board of directors, name of directors and representative directors etc.
2) Search for similar company name	At the Legal Affairs Bureau
3) Preparation of articles of incorporation	<i>Absolute matters</i> ; Company objectives, company name, address of head office, value or minimum amount of assets contributed at time of incorporation, name and address of each promoter
4) Company seal	1) Acquire seal for the company and representatives at a seal carver 2) Obtain certificate seal registration at the Ward office
5) Promoter meeting	Preparation of minutes of the promoter meeting. Two copies of the meeting must be prepared
6) Notarisation of the articles of incorporation	Notarisation is done at a public notary office (stamp duty JPY 40,000 and a notary fee JPY 50,000)
7) Appointment of a bank to handle the share subscription money	The selection of a bank for future operations is very important
8) Public offering	Allotment of shares to the parent company
9) Payment of the share subscription money to the bank	Remittance of joint-stock corporation capital to special bank account in case of formation with outside offering * If a joint-stock corporation is incorporated with the joint equity

	<p>participation by an individual or corporation with a bank account in Japan, it may not be necessary to apply to a bank for capital custody and issuance of a capital custody certificate. In this case, it is sufficient for the capital to be paid into the joint equity participant's bank account in Japan, and for documentary evidence to be submitted by the representative director of the joint-stock corporation in place of a bank-issued capital custody certificate in order to certify that payment of the full amount of capital has been received.</p>
10) Certificate for the receipt of the share subscription money	<p>Issued by the bank A bank capital custody certificate is required to certify the amount paid in by the promoter as well as the subscriber of shares at incorporation.</p>
11) Establishment meeting by the subscribers	Appoint directors and auditors
12) Board of director meeting	Approval of directors; minutes must be taken
13) Register of Establishment	Application at the Legal Affairs Bureau for registration (with a registered representative seal); registration and licence tax of JPY 150,000 or 0.7% of paid in capital
14) Opening of bank account under company name	Register with the Bank of Japan within 15 days
15) Notification of stock acquisition to the Bank of Japan	Notification prior to company establishment may be required in certain sectors
16) Notifications required after registration	<p>After completing the process of incorporation or establishment of a branch, the following notifications need to be filed with the authorities.</p> <p>1) National tax authorities</p> <ul style="list-style-type: none"> <li>-Notification of incorporation in case of a subsidiary corporation: File within 2 months from date of incorporation.</li> <li>-Notification of acquisition of status of foreign ordinary corporation in case of a branch: File within 2 months from date of acquisition of status of foreign ordinary corporation</li> <li>-Notification of establishment of an office paying salaries: File within 1 month from establishment of office.</li> <li>-Application for approval of filing a blue-form tax returns: File the day before the sooner of the day 3 months after incorporation or the last day of the first business year after incorporation.</li> </ul> <p>2) Prefectural and municipal (local) tax authorities</p> <ul style="list-style-type: none"> <li>- Notification of incorporation or establishment of branch, etc.</li> </ul> <p>3) Labour standards inspection authorities</p> <ul style="list-style-type: none"> <li>- Labour standards enforcement report</li> <li>-Labour insurance: notification of establishment of labour insurance: relationship and declaration of estimated insurance</li> </ul>

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contributions. A business becomes subject to labor insurance as soon it employs any workers (even if just one). These documents must be filed within 10 days of the date of hiring and insurance contributions paid within 50 days.

- Agreement on overtime and holiday work:

This must be filed in advance if workers will be required to work in excess of statutory working hours (more than 8 hours per day or 40 hours per week) or on statutory holidays (1 day per week) at a business establishment.

- Employment regulations:

Any business ordinarily employing 10 or more workers must draw up and submit a copy of its employment regulations without delay.

Note: "Employees" here also includes representatives of corporations, such as representative directors.

#### 4) Public employment security authorities

- Notification of coverage of establishment by employment insurance (including notification of acquisition of insured status): This must be filed within 10 days of first hiring workers.

#### 5) Pension authorities

- Notification of first-time coverage by health/employees' pension insurance: File within 5 days of first hiring employees at a corporation or other establishment covered by social insurance.

- Notification of acquisition of insured status under health/employees' pension insurance: File within 5 days of hiring employees.

- Notification of addition/removal of dependents of insured employees: File within 5 days if a person (employee) covered by health insurance have dependents.

- Notification of acquisition of type 3 insured status under the National Pension: File within 5 days if a spouse of an insured person (employee) is a dependent.

Note: "Employees" here also includes representatives of corporations, such as representative directors.

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### LIMITED LIABILITY COMPANY (*GODO KAISHA*—GDK)

A *Godo Kaisha* (GDK) is an entity loosely based on the US LLC. The investor's liability in the GDK is limited to their capital contribution. A GDK is more flexible than a KK and well-suited for smaller companies.

Unlike the US LLC, a GDK is not available for pass-through income taxation for Japanese tax purposes. The formation and legal structure of a GDK is similar to that of a KK but much simpler. Unlike a KK, each GDK member is responsible for managing the affairs of and representing the GDK.

**UNLIMITED PARTNERSHIP (GOMEI KAISHA-GMK)**

A *Gomei-Kaisha* is a company with unlimited liability members. They are jointly and severally responsible for the company's liabilities.

**LIMITED PARTNERSHIP (GOSHI KAISHA-GSK)**

A *Goshi Kaisha* is similar to a *Gomei-Kaisha* except there are members with unlimited liability and with limited liability.

**OVERVIEW FOR NEW INVESTORS**

A foreign company may invest in Japan using a method other than those described above, for example, by establishing a joint venture with a Japanese company or equity participation in a Japanese company.

The following section provides a summary regarding the main methods of setting up a business, representative offices, branches and subsidiary companies, as a comparison guide for new foreign investors. Table 5 shows the general factors which should be checked before determining the entry type.

**TABLE 5**

*Factors to consider when choosing a representative office, branch or subsidiary company*

TYPE	FACTORS TO BE CHECKED
Representative Office	<ul style="list-style-type: none"> <li>a) Not permissible to conduct business operations</li> <li>b) For gathering information and communications only</li> <li>c) Purchase and hold materials only</li> <li>d) Difficult to get business trust from customers</li> <li>e) Not corporate tax taxable because of non income</li> </ul>
Branch	<ul style="list-style-type: none"> <li>a) Expand business slowly by trade or trade in Japan</li> <li>b) Possible to set off a starting-up loss with the HO income</li> <li>c) Impossible to deduct loan interest from the parent</li> <li>d) Convenient for HO management control</li> <li>e) Corporate tax taxable in Japan and to be added to the HO tax</li> </ul>
Subsidiary Company	<ul style="list-style-type: none"> <li>a) To expand business faster by business operation in Japan</li> <li>b) Not necessary to disclose the parent company's accounts</li> <li>c) To avoid HO director appearing in a Japanese court</li> <li>d) Possible to deduct loan interest from the parent</li> <li>e) Necessary to consider tax treaty and foreign tax deductions</li> <li>f) Easy to employ new staff</li> <li>g) Easy to gain trust from customers</li> <li>h) Easy to get a loan from the bank and government</li> <li>i) Corporate tax taxable in Japan as a common company</li> </ul>

**COMPARISON OF SUBSIDIARY COMPANY (KK) VERSUS BRANCHOFFICE**

Most foreign investors choose a corporation or branch as their business entity in Japan.

**TABLE 6**

*Comparison between a subsidiary company (KK) and branch office*

POINT	CORPORATION	BRANCH
Capital	No limit	N/A
Number of investors	1 or more	N/A
<ul style="list-style-type: none"> <li>• Transfer of equity participation share</li> </ul>	May be transferred freely in principle. May be stipulated in articles of incorporation that approval of Board of Directors is needed for transfer of shares.	No equity participation share
<ul style="list-style-type: none"> <li>• Dividends of profits</li> </ul>	Allocated according to equity participation ratio. Remittance subject to withholding tax at 20% (or reduced rates under tax treaty)	N/A
Loan:	N/A	Possible
<ul style="list-style-type: none"> <li>• Loan from H/O</li> <li>• Loan from parent</li> </ul>	Interest is deductible (thin capitalisation rules) Possible	Interest is not deductible Difficult
<ul style="list-style-type: none"> <li>• Loan from bank</li> </ul>		
Annual administration	Annual shareholders' meeting	Not required regular general meeting Update registered items
Tax return	Submitted by the subsidiary	Submitted by the branch with the parent's accounts
Directors (The requirement that at least one representative director must be domiciled in Japan is no longer applied to KK on and after March 16, 2015)	Appointment of 1 or more required. *publicly traded joint-stock corporations required appointment of 3 or more.	Not required
Hiring new staff	Attractive for employees	Not attractive for employees

## 5 – LABOUR

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There have been major changes to the employment environment in Japan in the last 20 years.

In 1999, 2003, 2012 and 2015 the government revised the Worker Dispatch Law, which fundamentally eased regulations on the use of temporary workers. This made the use of temporary work prevalent in Japanese companies.

### TYPES OF EMPLOYMENT

Employment in Japan is classified into two categories:

- Regular
- Temporary (part-time and dispatch).

### REGULAR EMPLOYMENT

Regular employment (often referred as ‘permanent employment’ in Japan) is regular full-time employment that includes benefits, such as health insurance, paid time off and retirement allowance.

Most Japanese companies traditionally used permanent employment and many people regarded their employment as a life-time assignment. However, the permanent employment system inevitably raised personnel costs with regards to maintaining senior employees. To cope with an increasingly open economy and build international competitive advantage, the government adopted policies of labour market deregulation such as the revision of the Worker Dispatch Law.

### TEMPORARY EMPLOYMENT

Temporary employment refers to a situation where an employee is expected to leave the employer within a certain period of time. Temporary workers may work full-time or part-time, depending on individual cases.

### PART-TIME

Part-time workers have shorter working hours per week than regular workers in the same place of work. In some cases part-time workers are given benefits (such as health insurance) but not a full benefit package. Regular pay hires, bonus payments and retirement allowances are generally not applied to this type of worker.

However, the Part-Time Employment Act was revised to protect part-time workers. For example, it stipulates that part-time workers' abilities should be used effectively and working conditions should be equal to those of regular employees in the same workplace.

### DISPATCH

Dispatch workers are workers who have employment contracts with temporary work agencies. The agencies send dispatch workers to companies in need as short-term staffs. Dispatch workers are also used in work that has a cyclical nature which requires frequent adjustment of staffing levels. The Worker Dispatch Law prohibits the use of dispatch workers in some industries, including port transport, construction, guard services and medical services.

## WORKING CONDITIONS

Foreign employees are protected by the Labour Standards Law and other related laws which protect Japanese employees.

These laws are designed to ensure that there is no discrimination or unfair treatment of employees.

## WORK PERMITS AND VISAS

Employers are only able to employ individuals who have permission to live and work in Japan. Generally, foreigners who have one of the following residential statuses have the right to work in Japan:

- Permanent resident
- Spouse or child of Japanese national
- Spouse or child of permanent resident
- Long-term resident.

Foreigners are permitted to work as the following or in the following professions/services:

- Professor
- Artist
- Religious activities
- Journalist
- Investor/business manager
- Legal/accounting services
- Medical services
- Researcher
- Instructor
- Engineer
- Specialist in humanities and international services
- Intra-company transferee
- Entertainment
- Skilled labour
- Designated activities.

More detailed information is provided by the Immigration Bureau of Japan.

## CONTRACT OF EMPLOYMENT

Employers are required to enter into labour contracts with employees. Employers also need to provide written notification about employment conditions, including:

- Place of work
- The duties that the employee will have to perform
- Working hours
- Holidays
- The methods of determining, calculating and paying wages
- Matters pertaining to resignation and dismissal.

## PROBATION PERIOD

A permanent contract of employment will usually have a probation period of three months. Employers are allowed to terminate their relationship with an employee during or after the probation period if reasons of termination are objectively reasonable.

## WAGES

Employers must pay wages to employees in full at least once a month, on a fixed date. Employers are also required to deduct income tax, social insurance premiums and similar expenses from wages of their employees.

## GUARANTEE OF MINIMUM WAGES

The minimum wage depends on the industry and region. Industrial minimum wages are applied to certain industries and usually set higher than the regional minimum wages. If regional and industrial minimum wages differ, the higher of two will be applied.

As of 2016, regional minimum wages range from JPY 714-932 per hour for all workers. Minimum wages do not include costs of commuting, overtime pay and temporary pay. They must be paid exclusively to employees.

## RETIREMENT BENEFIT

Most Japanese companies have some form of retirement benefits or severance pay system. Retirement benefits are calculated based on the length of service and reason for leaving the company. Retirement benefits are treated more favourably for tax purposes than ordinary pay.

## EXTRA PAY

Employers must pay employees for overtime work, work on holidays and 'midnight' work. Japanese laws and regulations establish rules for how to calculate extra pay, which is paid on top of the regular wage. To determine overtime pay, the employer must calculate this at a rate of 25% or more of the regular wage, for work on holidays at least 35% and for work during the night (between the hours of 10pm–5am) at least 25%.

## ADVANCE NOTICE OF DISMISSAL

When dismissing an employee, the advanced notice period is usually at least 30 days. If an employer fails to give timely advance notice with no reasonable excuse, the employer must pay the employee the amount of the average wage for the number of days falling short of the 30 days advanced notice.

## WORKING HOURS, BREAKS AND DAYS OFF

The statutory working hours are eight hours a day, 40 hours a week. However, as an exception, working up to 44 hours a week is permitted for certain businesses. These businesses include retail and beauty services, theatres, businesses related to health and hygiene, as well as restaurants and entertainment businesses with less than ten regular employees.

Statutory holiday is one day a week or four days or more in a four week period.

## LABOUR AND SOCIAL INSURANCE SYSTEMS

Employers are legally obliged to take part in labour and social insurance schemes. There are four kinds (listed below) of insurance systems, where employers pay their portion of insurance premiums to the authorities together with the employee's portion (which is deducted from the employee's wages):

- 1) Workers' Accident Compensation Insurance—covers work-related injuries and diseases including accidents while commuting to or from work
- 2) Employment Insurance— provides temporary financial assistance for unemployed people while they look for work or upgrade their skills

- 3) Health Insurance and Nursing Care Insurance— covers medical and nursing care expenses for employees
- 4) Employees' Pension Insurance—provides benefits for employees to cover the income of households after retirement and likely risks, such as disability and death.

Workers' Accident Compensation Insurance and Employment Insurance are referred to collectively as 'Labour insurance'. Health, Nursing Care and Employees' Pension Insurances are referred to collectively as 'Social Insurance'.

Immigrant workers are quickly increasing mainly for the purpose of their own skill up and learning Japanese business system. They have a plan to set up Japanese style business in their country.

## 6 – TAXATION

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### RESIDENCY OF COMPANIES

For the purpose of applying the Corporation Tax Law of Japan, a company which is headquartered or has its main office in Japan is considered a domestic company.

A company is considered a foreign company if it is headquartered or has its main office outside of Japan.

Taxpayers subject to the Corporation Tax Law of Japan are corporations (including those established by special laws) under the company law or other corporation laws or under the civil code. This section focuses only on companies established under the company law of Japan or equivalent laws of foreign countries.

### CORPORATE TAX

#### TAXATION OF DOMESTIC COMPANIES AND FOREIGN COMPANIES

A domestic company is liable to pay corporation tax on its worldwide income. A foreign company is liable to pay corporation tax on its domestic source income.

#### DOMESTIC SOURCE INCOME

Domestic source income is income from business conducted in Japan or from using, holding or transferring assets located in Japan. Domestic income includes income from conducting a business providing personal services in Japan, for the lending of real estate or any right on real estate located in Japan, interest from Japanese government bonds, dividends from domestic companies and other income as prescribed by the corporation tax law.

The scope and kinds of domestic source income subject to corporation tax varies with the type of permanent establishment (PE) held by a foreign company. Three types of PE are prescribed by the corporation tax law:

- Branch, factory or other fixed place of business (Item 1 PE)
- Activities of construction, installation or assembly (Item 2 PE)
- Agent of the foreign corporation (Item 3 PE).

Nevertheless, Japan has concluded tax treaties with many countries for purpose of avoiding double taxation of income. Domestic source income and PE treatment under Japanese law may at times be amended according with these tax treaties.

#### TAXABLE INCOME AND TAX YEAR

Taxable income is net revenue less deductions (cost, expenses and losses). It is to be calculated in accordance with generally accepted accounting principles and the provisions of the corporation tax law. The tax year for the calculation of taxable income is to be the same as the accounting year used for financial reporting purposes.

A company is allowed to carry forward NOLs (Net Operating Loss as the net of revenue less deductions for costs, expenses and losses) in a tax year to use as a deduction in the succeeding nine years, as long as the company has the blue form tax return filing status.

The blue form tax return filing status is given to a company filing requirements prescribed by the corporation tax law for keeping records of transactions, having obtained the permission by the Director of the District Tax Office and having filed its tax return every year on a timely basis. Nevertheless, NOL deductions limited to 65% (2016.4~2017.3; 60%、2017.4~2018.3; 55% 2018.4~2019.3; 50%) of current taxable income for large company.

#### LOCAL TAXES

A company is liable to pay local taxes on its income in addition to the corporation tax paid to the national government. Currently, local taxes applicable to a company are prefectural and municipal inhabitant taxes, enterprise tax and special local corporation tax.

#### CORPORATION TAX RATES

Corporations are taxed at a rate of 23.4%. A special reduced rate of 15% is applicable for taxable income up to JPY 8 million of a small and medium-sized company.

TABLE 7

*Corporate income tax rates*

COMPANY SIZE	TAX RATE AFTER APRIL 2016	TAX RATE AFTER APRIL 2017	TAX RATE AFTER APRIL 2018
Small & medium-sized enterprises (SMEs)			
• Up to JPY 8 million	15%	15%	19%
• Over JPY 8 million	23.4%	23.4%	23.2%
Large companies	23.4%	23.4%	23.2%

A small and medium-sized company eligible for the special reduced rate is a company whose paid-in capital is JPY 100 million or less and is not 100% owned directly or indirectly by a company whose paid-in capital is JPY 500 million or more. Large companies are those whose paid-in capital is more than JPY 100 million.

#### LOCAL TAX RATES

Prefectural and municipal inhabitant taxes are calculated based on the amount of national corporation tax of a company. Applicable tax rates, which are determined respectively by a prefecture and a municipality, vary between standard and maximum rates.

TABLE 8

*Prefectural and municipal inhabitant tax rates applied to national corporation tax amount*

	STANDARD RATE	MAXIMUM RATE
Prefecture	3.2%	4.2%
Municipality	9.7%	12.1%
Local Corporation Tax	4.4%	4.4%
Total	17.3%	20.7%

In addition to taxes which are applied to a corporation's tax amount, a company is also liable to pay per capita inhabitant taxes to prefectures and municipalities, which are based on the amount of paid-in capital and the number of employees.

Although prefectural and municipal tax rates will decrease from the fiscal year beginning after October 2014, local corporation tax (National tax) will be newly introduced to make the effective tax rate as equal. This tax reforms was enacted in order to decrease the gaps of urban and rural areas tax revenue.

#### TAX RATES OF ENTERPRISE TAX

Enterprise tax, imposed by prefectures, is calculated based on the amount of a company's taxable income. Applicable tax rates determined by each prefecture vary between a standard and maximum rate.

TABLE 9  
*Enterprise tax rates*

INCOME LEVY	ANNUAL TAXABLE INCOME	PAID-IN CAPITAL JPY 100 MILLION OR LESS		PAID-IN CAPITAL MORE THAN JPY 100 MILLION	
		STANDARD RATE	MAXIMUM RATE	STANDARD RATE	MAXIMUM RATE
	Up to JPY 4 million	3.4%	3.65%	0.3%	0.395%
	JPY 4 – 8 million	5.1%	5.465%	0.5%	0.635%
	More than JPY 8 million	6.7%	7.18%	0.7%	0.88%
Added value levy				—	1.26%
Capital levy				—	0.525%

#### SPECIAL LOCAL CORPORATION TAX

Special local corporation tax is calculated based on the amount of taxable income multiplied by the standard rate of enterprise tax.

TABLE 10  
*Tax rates for business scale taxation*

PAID-IN CAPITAL JPY 100 MILLION OR LESS	PAID-IN CAPITAL MORE THAN JPY 100 MILLION
43.2%	414.2%

#### EFFECTIVE TAX RATE

Enterprise tax and special local corporation tax are deductible in the calculation of taxable income for corporation tax. Taking into account the deductible nature of these local taxes, the effective tax rate is calculated as 30.86% for a company located in Tokyo (inside 23 ward district) whose paid-in capital is in excess of JPY 100 million.

## OTHER TAXES

### BUSINESS OFFICE TAX

Companies whose business premises exceed 1,000 square meters and/or employ in excess of 100 employees in designated cities are subject to business office tax. Designated cities have discretion whether or not to charge the tax.

### FIXED ASSETS TAX

Real property and tangible depreciable fixed assets are subject to fixed asset taxes at the standard rate of 1.4%.

## GROUP TAXATION REGIME

Under the 2010 tax reform, the Group Taxation Regime was introduced. It is the most important revision for Japanese subsidiary companies and Japanese branch offices of foreign companies. Group taxation is designed to reduce the negative effect the separate existence of related companies has on the aggregate tax liability of the group. Group taxation provides business groups flexibility to organise their business activities, internal restructurings and asset transfers.

Generally, the rules eliminate income and loss recognition on intra-group transactions by providing for deferral. The Group Taxation Regime automatically applies to certain transactions carried out by companies belonging to the same 100% group (companies with a 100% shareholding relationship directly or indirectly).

The main points of the Group Taxation Regime are:

- Capital gains/losses arising from transfers of assets between Japanese companies in a 100% group are deferrable
- The Dividends Received Deduction (DRD) –dividends from wholly-owned companies (100% Japanese subsidiaries) are exempt from taxable income without deducting attributable interest expense on such dividends
- Tax qualified dividends-in-kind between Japanese companies in a 100% group –dividends-in-kind are assets which companies distribute as dividends other than money. Dividends-in-kind between Japanese companies in a 100% group are treated as tax qualified dividends-in-kind. Recognition of capital gains/losses from tax qualified dividends-in-kind is deferred. In addition, withholding taxes are not imposed
- Donations between Japanese companies in a 100% group –a donation between Japanese companies in a 100% group is not deductible for the donating company. For the recipient company, the donation amount is not included in its taxable income.

Special tax reliefs are applied to small and medium-sized companies.

## CONSOLIDATED TAX REGIME

A Japanese 100% group can choose the consolidated filing of income tax returns. Once a 100% group adopts consolidated filing, it is irrevocable unless specific events, such as change of ownership, occur. The consolidated tax return filing system is applicable only to Japanese companies in a 100% group, not to foreign companies.

The main benefit provided by the consolidated tax regime is the offsetting of profits and losses; a consolidated group can offset profits and losses within the group companies for national corporate tax purposes. However, some features of the consolidated tax regime may result in a tax burden. When a tax consolidated group forms or a subsidiary joins an existing consolidated group, assets of the subsidiaries will be re-evaluated at market value. These built-in gains/losses could result in additional taxation. In addition, tax losses incurred by the subsidiary before joining the consolidated group will be erased.

The consolidated tax return filing system is applied only to national corporate income tax. Local corporate income taxes are imposed on member companies. Each member company has to continue to pay local corporate taxes on an individual basis although the amount payable will be affected by the existence of the consolidation.

#### WITHHOLDING TAX CREDITS

Withholding taxes are imposed on incomes such as interest and dividends. In general, withholding taxes are creditable against corporate tax. An excessive amount of withholding tax on a corporate tax liability (if any) is refundable.

#### FOREIGN TAX CREDITS

A Japanese company is allowed to claim tax credits for foreign corporation tax, including foreign local tax and withholding tax that are paid directly by the Japanese company. There is a certain limit on the amount of creditable foreign tax.

#### FOREIGN DIVIDEND EXCLUSION SYSTEM

Under the Foreign Dividend Exclusion System, 95% of dividends from foreign subsidiaries to a Japanese parent company are exempted from corporate income tax. To apply for the Foreign Dividend Exclusion, foreign subsidiaries have to meet two qualifications:

- Hold 25% of shares or more directly or indirectly
- Hold 25% of shares or more at least six months before the date on which the obligation to pay the dividends is determined.

The exclusion system does not apply to subsidiaries with less than 25% shareholdings.

After 1 April 2016, when a company located in Japan receives dividends from its subsidiary companies located overseas, these dividends income are full taxable in Japan if these dividends are tax deducted at the each overseas company.

#### TRANSFER PRICING

The operation of transfer pricing taxation needs to be properly managed, taking into consideration the fact that this taxation system is based on arm's length principles. For this reason, it shall be operated in accordance with the basic policies stated below:

- A close examination will be made to assess whether prices fixed for foreign-related transactions are equal to the normal prices fixed for uncontrolled transactions. Where any problem is found with transactions, efforts shall be made to collect information widely on the market and business for an appropriate assessment of the calculation method selected and comparable transaction, and adjustment for differences

- To ensure the predictability of the corporation and to realise proper and smooth enforcement of transfer pricing taxation, the advance pricing agreements (APA) process shall be conducted in cases where an APA request regarding the transfer pricing mechanism (TPM) is submitted by the corporation, based on the contents of a mutual agreement related to the APA request (if there is any such agreement)
- To solve international double taxation caused by transfer pricing taxation, it is important for the tax authorities of each country to share an understanding of transfer pricing. Therefore, an examination or APA review shall be conducted in an appropriate manner by referring to the OECD Transfer Pricing Guidelines as necessary.

## CONSUMPTION TAX

Japanese consumption tax, similar to European value added tax (VAT), is applied at the rate of 8% to the majority of goods and services consumed in Japan, including imports of goods and services.

There are a number of exemptions, including the lease or sale of land, education, medical treatment and social welfare activities. Exports and certain specific services invoiced to non-residents are 0% rated.

The consumption tax rate is 8% (national consumption tax rate of 6.3% and local consumption tax rate of 1.7%). However, the consumption tax rate will increase up to 10% (including local consumption tax rate of 2.2%) from 10 October 2019.

After 1 October 2015, all services through internet and other electrical methods from the registered companies located overseas are tax imposed the same as domestic companies (it is called “reverse charge”).

## REGISTRATION

Vendors/service suppliers must register as consumption tax payers if they have taxable sales transactions in excess of JPY 10 million in the base period (two years before the current year). If the taxable sale in the base period is not more than JPY 10 million, the vendor/service supplier is able to elect whether or not they are treated as a consumption tax payer.

## INCOME TAXES ON INDIVIDUALS

### RESIDENT/NON-RESIDENT STATUS

Individuals are generally classified according to the period of their residence in Japan.

TABLE 12

*Residency status*

PERIOD OF RESIDENCE	STATUS
Up to 12 months	Non-resident
12–60 months	Non-permanent resident
More than 60 months	Permanent resident

Non-resident taxpayers are considered taxable on only their Japanese source income.

Non-permanent resident taxpayers are taxable both on Japanese source income and part of the non-Japanese source income that is paid in and/or remitted to Japan. Permanent resident taxpayers are taxable on their worldwide income.

## NATIONAL INCOME TAX AND LOCAL INHABITANT TAX

Individual taxes consist of national income tax and local inhabitant tax. The tax year is the calendar year beginning on 1 January. For local inhabitant tax, taxable income is based on the previous tax year's income.

### NATIONAL INCOME TAX

The rate of tax levied on an individual is determined by the individuals' taxable income. As income increases, the marginal rate of tax increases (progressive tax rate). When calculating the net ordinary taxable income, a number of tax deductions are allowed to reduce taxable income.

Tax deductions available for individuals include, but are not limited to:

- Social insurance premiums paid to the Japanese government
- Life insurance premiums
- Earthquake insurance premiums
- Charitable contributions
- Qualified medical expenses
- Deductions for dependents (dependent spouse, children over 16 years old)
- Deduction for the elderly (over 70 years old)
- Deduction for the disabled.

TABLE 13

*Individual tax rates – applied to the net of ordinary taxable income*

NET TAXABLE ORDINARY INCOME (JPY)	TAX RATE (%)	DEDUCTION (JPY)
0 – 1,950,000	5%	-
1,950,000 – 3,300,000	10%	97,500
3,300,000 – 6,950,000	20%	427,500
6,950,000 – 9,000,000	23%	636,000
9,000,000 – 18,000,000	33%	1,536,000
8,000,000 – 40,000,000	40%	2,796,000
More than 40,000,000	45%	4,796,000

Calculation: taxable income × tax rate – deduction

### SPECIAL RECONSTRUCTION INCOME TAX

Special Reconstruction Income Tax was introduced under the 'Act on Special Measures for Reconstruction Funding'. Special Reconstruction Income Tax will be imposed on individuals for 25 years (i.e. from 2013 to 2037) as additional 2.1% of its individual tax amount.

### LOCAL INHABITANT TAX

Local inhabitant tax consists of an 'income-based levy' and 'per-capita levy'. The tax rate of the income-based levy is 10% standard rate regardless of the amount of taxable income. As described above, taxable income for local inhabitant tax is based on the previous tax year's income. The standard amount of 'per capita levy' is JPY 3,500 per capita for municipal inhabitant tax and JPY 1,500 for prefectural inhabitant tax.

### CAPITAL GAINS

Capital gains from real estate realised by individuals are subject to tax separately from ordinary income and are classified as:

- Short-term capital gains (for real estate held less than five years) are taxable at a 30% income tax rate with additional 2.1% of special income tax for reconstruction charged on income tax amount and a 9% inhabitant tax rate.
- Long term capital gains (for real estate held more than five years) are taxable at a 15% income tax rate with additional 2.1% of special income tax for reconstruction charged on income tax amount and 5% inhabitant tax rate.

In the case of the sale of the individual's residence, certain tax advantages are available (i.e. special deductions, loss carry-forward and a lower tax rate).

### STAMP DUTY

Stamp duties are imposed on taxable documents, such as contracts and legal documents. They are imposed in the range of JYP 200–600,000.

## TAXATION OVERVIEW FOR NEW INVESTORS

The following section provides a taxation comparison overview for new foreign investors.

### TAXABLE INCOME

#### SCOPE OF TAXABLE INCOME OF A CORPORATION

While domestic and foreign source income is subject to a corporate tax, a foreign tax credit is allowed to a corporation.

#### SCOPE OF TAXABLE INCOME OF A BRANCH

Only domestic source income is subject to corporate tax. No foreign tax credit is allowed for a foreign company.

A foreign company having a permanent establishment (PE) is subject to tax on all domestic source income or domestic source income attributable to the permanent establishment based on a tax treaty and must file a tax return. The remittance of funds from a Japanese branch to its foreign head office and transactions between them is generally not subject to corporate taxation.

It should be noted that by definition of PE of a foreign company, the treatment of business income, the location of source of income and taxation should be considered according to each tax treaty that may be in effect.

### REPRESENTATIVE OFFICE

A representative office of a foreign company engaged in advertising, information provision, market survey, basic research and other supplementary activities in Japan for its head office is not subject to corporate tax.

TABLE 14

*Notification to tax office regarding setting up a subsidiary*

TIMING	NATIONAL TAX OFFICE	LOCAL TAX OFFICE
A	Notification of establishment of office paying salaries for withholding tax purposes	Notification of incorporation. Establishment of a company
B	Notification of incorporation of a company	
C	Application of Blue Return Filers	

TABLE 15

*Notification to tax office regarding setting up a branch*

TIMING	NATIONAL TAX OFFICE	LOCAL TAX OFFICE
*	Notification of establishment of office paying salaries for withholding tax purposes	Notification of incorporation. Establishment of a company
*	Notification of a foreign company with attachment	
*	Application of Blue Form Return	

\* No particular deadline is regulated but it should be submitted at the latest within two months after the above matters are completed.

## 7 – ACCOUNTING & REPORTING

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The Corporate Law amended in 2005 regulates accounting and reporting requirements for all companies in Japan.

This law requires that every company should maintain accurate records and prepare the following statements for each fiscal year:

- Balance sheet
- Income statement
- Statement of changes in net assets
- Annotations for the above statements
- Business report
- Supporting schedules.

Publicly listed companies are also governed by the Financial Instruments and Exchange Law. This law requires listed companies to prepare both financial statements and internal control reports. Therefore, listed companies have to comply with two laws for disclosure; the disclosures required by the Corporate Law are for shareholders, while the disclosures required by the Financial Instruments and Exchange Law are for investors. Both disclosures are similar, but the Financial Instruments and Exchange Law requires listed companies to provide further information, such as cash flow statements and quarterly reports. Listed companies are also required to submit a quarterly release of financial results to the stock exchanges under the listing rules. For non-listed companies, only disclosures for the shareholders under the Corporate Law are required.

### ACCOUNTING AND REPORTING REQUIREMENTS FOR BRANCHES

A foreign company with a Japanese branch must attach the financial statements of the Japanese branch, as well as those of the company as a whole, to the Japanese corporate tax return to be filed each fiscal year.

A foreign company conducting regulated business (i.e. banking or insurance) must prepare financial statements for the government in compliance with the relevant laws governing such regulated business. There are no extra accounting and reporting requirements applicable to a branch that conducts non-regulated businesses.

### ACCOUNTING STANDARDS

Financial statements must be prepared in accordance with Generally Accepted Accounting Principles in Japan (J-GAAP).

J-GAAP is determined by the Financial Service Agency (FSA) and Accounting Standards Board of Japan (ASBJ). The ASBJ started the convergence project with the International Accounting Standards Board (IASB) in 2005, and entered into an agreement known as the Tokyo Agreement in August 2007. Under this agreement, ASBJ had been promoting examinations towards the convergence of J-GAAP with International Financial Reporting Standards (IFRS). All of the examination objects under this agreement had been once settled in 2013 with the public announcement of amended “Accounting Standard for Business Combinations” and related guidance.

A number of differences still remain between J-GAAP and IFRS even after the convergence project. Among the differences, treatment of goodwill seems to have the most profound impact on financial statements. In principle, J-GAAP requires goodwill to be amortised within 20 years using the straight line method or any other rational method, meanwhile, it is not amortised but is subject to an impairment review in each reporting period under IFRS.

### **ADOPTION OF ACCOUNTING STANDARDS OTHER THAN J-GAAP**

Japanese companies can now use one of four accounting standards in their consolidated financial statements (subject to certain eligibility requirements), J-GAAP, US-GAAP, the designated IFRS and the newly issued JMIS.

#### **US-GAAP**

Japanese companies registered with the US Securities and Exchange Commission (SEC) have to submit financial statements that conform to US-GAAP or (starting March 2008) IFRS. With consideration for those SEC registered companies, it has been permitted in Japan to use US-GAAP instead of J-GAAP in its consolidated financial statements. Recently, companies which had adopted US-GAAP are shifting their accounting standard to IFRS and the number of companies using US-GAAP is decreasing.

#### **DESIGNATED IFRS**

Since 2010, eligible listed companies have been permitted to use IFRS as designated by the FSA in their consolidated financial statements, instead of J-GAAP. At the present moment, the designated IFRS are identical IFRS issued by the IASB before the effective date without an exception.

Mandatory adoption of IFRS has been considered in Japan for some time, though the decision is yet to be made. Recently, Japan is promoting greater use of IFRS on a voluntary adoption basis. Complying with this trend, the eligibility requirements for listed companies or those applying for a listing to use designated IFRS have been relaxed as follows:

An entity has to establish an internal process that enables them to prepare appropriate reporting under designated IFRS, and post the officers or employees with sufficient knowledge of the subject. An entity has to file and disclose the fact that the designated IFRS have been used, and the basis of eligibilities.

As a result of relaxing the eligibility requirements, companies which adopt or plan to adopt designated IFRS on a voluntary basis are increasing steadily.

#### **JMIS (JAPAN'S MODIFIED INTERNATIONAL STANDARDS: ACCOUNTING STANDARDS COMPRISING IFRS AND THE ASBJ MODIFICATIONS)**

In June 2010, the Japanese Business Accounting Council (BAC) released its final report on the use of IFRS in Japan, titled "The Present Policy on the Application of International Financial Reporting Standards (IFRS)". In the report the BAC recommended introduction of an additional set of standards identical to IFRS with limited modifications.

In response to above recommendation from the BAC, the ASBJ issued “Japan’s Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications” in June 2015. JMIS are the standards and interpretations issued by the IASB with certain ‘deletions or modifications’ where considered necessary. The current list of JMIS consists of standards issued by the IASB as at 31 December 2012. Through an endorsement process, two ASBJ Modification Accounting Standards related to the accounting of goodwill and other comprehensive income were also published. JMIS requires goodwill to be amortised and all comprehensive income to be recycled to profit or loss eventually in the same way that J-GAAP does.

Companies may apply JMIS to consolidated financial statements for annual periods ending on or after 31 March 2016. Regarding quarterly financial reporting, companies may apply it for quarters within annual periods beginning on or after 1 April 2016. Though there is still no Japanese company which has applied JMIS, some companies may consider applying JMIS at the stage prior to applying the designated IFRS.

#### CORPORATE GOVERNANCE CODE

All listed companies after the financial year ended at 31 March 2015 have to introduce the Corporate Governance Code (CGC). CGC requests 73 items in relation to the company activities as a listed company. These requirements, however, are not to be all introduced, excluding 11 key requirements. Every listed company has to disclose the company policy regarding CGC regulated policy “comply or explain”.

All listed companies have to disclose Corporate Governance Report by the end of the seventh month after regular shareholders’ meeting. The present government promotes CGC to drive forward communication with investors.

#### AUDIT

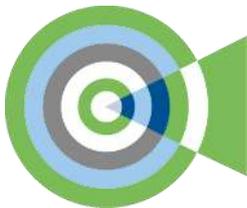
The Japanese Corporate Law requires large companies’ annual accounts to include a report from a suitably qualified and registered auditor to the shareholders. Qualified auditors are certified public accountants (CPA) or auditing firms registered in Japan. The law stipulates that a large company is a company whose capital stock exceeds JPY 500 million or whose total amount of liabilities (as of the latest balance sheet date) exceeds JPY 20 billion. The Financial Instruments and Exchange Law also require listed companies to have their financial statements audited by a qualified auditor.

#### INTERNAL CONTROL AUDIT

The Japanese Financial Instruments and Exchange law requires that all listed companies have to provide internal control audit by each company with an external auditors’ report prepared by CPA or auditing firms.

## 8 – UHY REPRESENTATION IN JAPAN

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