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Global Mobility Services

Taxation of International Assignees - Japan

People and Organisation

Global Mobility Country Guide 2016

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Contents: Japan

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Global Mobility Country Guides

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 Global Mobility Services (GMS) contact, for advice specific to your facts and circumstances.

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 insurance. 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 20.42% rate with no deductions available. This rate includes 2.1% of the surtax described below. (20% x 102.1% = 20.42%)

4. Taking effect from January 1, 2013 a surtax was introduced as a special tax measure for the Tohoku earthquake reconstruction. The surtax is comprised of a 2.1% tax that is assessed on an individual's national income tax, and it will continue for 25 years until 2037.

Residence

5. Any individual who has a "jusho" (may be translated as ""residence") in Japan or has maintained a "kyosho" (may be translated as "a temporary place of abode") continuously for one year or more will be considered a resident. Generally, if an individual arrives to Japan to work and plans to stay for one year or more, s/he shall be considered to have established a "jusho" and be treated as a resident. There are 2 types of tax residents in Japan - non-permanent resident and permanent resident.

6. A non-Japanese national individual who is a resident of Japan and has not maintained a "jusho" (residence) or "kyosho" (temporary place of abode) in Japan for an aggregate of more than 5 years within the preceding 10 years will be considered a non-permanent resident.

   Please note that Japanese nationals do not qualify as a non-permanent resident status; they are considered permanent residents at the outset of their Japanese residency.

7. A permanent resident is a resident other than a non-permanent resident. A Japanese national is considered as a permanent resident from the outset of their Japanese residency.

Non-residents

8. An individual who does not have a “jusho” in Japan or has not maintained a “kyosho” continuously for one year will be considered a non-resident. Generally, if an individual plans to stay in Japan for less than one year, s/he shall not be considered to have established a “jusho” and be treated as a non-resident.

Married individuals

9. 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.

Step 2:
Understanding the Japan tax system

Taxation of employment income

10. 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

11. A non-resident taxpayer is generally subject to national income tax on Japan source income. Salary, remuneration, and allowances received for services rendered in Japan shall generally be considered as Japan source income and will be taxed at a flat 20.42 tax rate. A tax treaty may exempt individuals from Japan non-resident tax if they meet the conditions of the applicable tax treaty between Japan and the country of their residence.

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 Japan source income and foreign source income that is paid in Japan or remitted into Japan.

13. Since non-permanent residents are only subject to Japan tax on their Japan source income and foreign source income that is paid in Japan or remitted into Japan, remuneration relating to days worked outside Japan, which is paid from and remains offshore, is generally not subject to Japan tax. Please contact PwC for further details.

Remittance issues for non-permanent residents

14. Remittances may trigger additional taxes as they may expose foreign source income paid outside of Japan to Japanese taxation. This can occur when the total of annual remittances into Japan and the amount paid in Japan exceed annual Japanese-source income. 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 and local inhabitants' tax on worldwide income.

Onshore payments

16. If you are paid compensation in Japan, the payment is subject to Japanese income tax withholding and social insurance. The social insurance 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 a 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 and the tax is to be settled in filing an annual tax return on March 15th of the following year.

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 who are directors are treated differently for Japan income tax purposes from payments made to individuals who are non-director employees.

   – The taxable benefit of employer-provided housing (see paragraph 23) for directors will generally be valued as 50% of actual rent.

   – Apart from a few exceptions, directors' compensation earned from a Japanese corporation is considered entirely Japan-source income.

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. There is an exception to the above rules for directors. Retirement payments made to a director of the company will only be eligible for preferential tax treatment of reducing the taxable basis to 50% if the individual has served as a director for a period of more than five years.

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 earned. 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 10% local tax in addition to the 20.42% 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. Housing provided as a benefit-in-kind is taxed preferentially. To qualify for the preferential treatment, the lease agreement must be in the employer's name, and the employer must sublease it to its employee (or director) in accordance with company rules. 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 considered as the taxable benefit. The actual amount is determined by utilizing a formula that involves the size and assessed value of the property. Note that the economic rent for directors is usually 50% of the actual rent value as previously mentioned (see paragraph 19).

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 a long term assignment 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. 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, when an expatriate's child is admitted to school free of charge under a qualifying scholarship program, which the company would participate by giving a 'donation' to the school, is not considered to be a taxable benefit to the expatriate. However, the 'donation' 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.

Language lessons

29. Language lessons for the employee provided by the employer based on business needs may be non-taxable.

Fringe benefits

30. Fringe benefits are generally taxable, such as employer-provided private health insurance, employer contributions to both traditional home country pension plans as well as '401(k)' plans.

Audits

31. 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

32. In general, foreign source investment income received overseas (not deemed to be 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 bank deposits and bonds paid in Japan is taxed separately through withholding at source. Residents of Japan are subject to a separate fixed withholding tax of 20.315% (15.315% for national tax and 5% for local tax) on interest income paid in Japan. Interest income paid outside of Japan is subject to aggregate taxation after being combined with other types of income at the graduated tax rates.

Dividend income

34. Dividends are generally subject to aggregate taxation after being combined with other types of income at the graduated tax rates. However, for dividends arising from listed stocks and publicly offered stock investment funds, taxpayers can elect to treat as separate taxation of flat rate of 20.315% (15.315% national and 5% local tax) on a tax return. In the latter case, capital losses from sales of listed stocks can be offset against the dividend income.

Securities

35. Capital gains arising from sales of stocks are taxed at a total rate of 20.315% (15.315% for national tax purposes with 5% local tax).

   – Capital losses from listed stocks transacted through a Japan-licensed financial institution may first offset other taxable gains from the sale of listed stocks, and remaining losses may offset dividend income from listed stocks under certain special conditions. Remaining capital losses after these offsets 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 deemed to be remitted to Japan. However, this is subject to change from tax year 2017.

Stock options

37. In general, income from an employee stock option is taxed as employment income and subject to Japanese national and local inhabitants' tax at the graduated income tax rates.

Sale of real property

38. Gains from the sale of real property 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. Necessary expenses incurred to generate the income can be deducted. 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. For tax year 2016, this deduction is capped at 2,300,000 Yen which is reached at a salary level of 12,000,000 Yen.

Medical expense deduction

42. Unreimbursed medical expenses are deductible to the extent that they exceed the smallest 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. Premiums for life insurance, private pension, nursing and medical insurance 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. Certificates issued by the insurance companies are required, and must be attached to the tax return.

Deduction for social insurance premiums and Allowance of FTC

45. The entire amount of Japanese social insurance premiums paid or withheld is deductible against taxable income for the purposes of both national and local inhabitants' tax.

    - Additionally, Japan laws allow a tax credit for foreign income taxes paid under certain limitations.

Deduction/Credit for charitable contributions or donations

46. Qualified contributions or donations are deductible in computing the national tax. The total deduction is limited to 40% of income, less 2,000 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 2,000 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 insurance premiums

49. A local employer of an employee whose salary is paid in Japan is generally required to enrol the employee with the Japanese social insurance system and should pay premiums. The employee would also have an obligation to pay a portion of the social insurance premiums. The rates change each year. Please see below for the rates that are in effect as of July 1, 2016. The insurance premiums for health insurance shown below are applicable for the standard scheme administered by the Japanese Health Insurance Association. The rates for the health insurance schemes administered by company formed associations or certain trade associations should 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, and whom remuneration are paid from their home countries are generally not eligible to enrol in the Japan social insurance system through the company. In such case, the expatriates are generally required to enrol individually at the municipals where they reside, which the premium amounts are determined differently from the case which an individual would enrol through the company.

- If the individual qualifies for a certificate of coverage through a bi-lateral social security agreement with Japan, then the individual may be exempt from enrolling in the Japan social insurance system

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	4.98%	4.98%	9.96%
on bonus	4.98%	4.98%	9.96%
Welfare pension (note 2):			
on monthly salary	8.914%	8.914%	17.828%
on bonus	8.914%	8.914%	17.828%
Employment insurance:			
on monthly salary	0.4%	0.7%	1.1%
on bonus	0.4%	0.7%	1.1%

Notes: (1) The health insurance premiums slightly vary depending on the prefecture where the employer's place of business is located. For your information, the rate of 9.96% is for Tokyo. No health insurance premium is due on such portion of monthly salary amounts over and above ¥1,390,000. The ceiling applicable to non-periodic payments such as bonuses is ¥5,730,000 annual (fiscal year ending March 31) total. In addition, long-term care insurance "Kaigo Hoken" of 0.79 % is due for an employee aged 40 years old and over but less than 65 years old. As mentioned in paragraph 47 above, social insurance premiums 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 month.

Step 3:
What to do before you arrive in Japan

Importance of proper planning

50. Employers and expatriates are strongly encouraged to contact PwC 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 PwC 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 workday's 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.

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 longer than three months, you are required to register with the ward office of the area in which you reside within two weeks from the date of move to the premises, but no later than 90 days of your arrival in Japan. In case you are a frequent traveller and no place to stay as the permanent accommodation, there would be certain exemption to register residence by providing the temporary accommodation information to the Minister of Justice through the ward office of area.

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 include the dates of departure from, and arrival in Japan, the names of the countries you visited, and the purpose of your trips such as business, home leave and vacation.

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 he/she is 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 20th, i.e., the tax payment is due approximately one month after the filing due date.

62. Thereafter, most expatriates must pay provisional taxes on July 31st and November 30th from the following year of their arrival. 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 gross 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 instalments on June 30th, August 31st, October 31st of the following year, and January 31st of the year after. 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 following 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 2.8% per annum (for 2016) 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 notices on a timely basis together with payment slips.

Overseas Assets Reporting Form

68. Effecting from the 2013 tax year, permanent residents of Japan who own assets outside of Japan which exceed 50,000,000 Yen in value as of December 31st of the year must disclose such assets by submitting an annual report by March 15th of the following year. Please contact PwC for further details.

Assets and Liabilities Reporting Form

69. Starting with Tax Year 2015, Japan has instituted new asset and liability disclosure reporting requirements for those who have net income on the tax return exceeding 20,000,000 Yen AND hold worldwide assets with a gross fair value of 300,000,000 Yen or more OR securities of 70. 100,000,000 Yen or more as of December 31st. Individuals meeting the conditions will need to report, in detail, all of their worldwide assets and liabilities. These reports are not a part of the income tax return and needs to be filed separately with the tax office by March 15th of the following year.

Step 6:
What to do when you leave Japan

In general

70. 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

71. Expatriates are required to file their national tax return and pay any taxes due before leaving Japan. 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.

Appointment of a Tax Administrator

72. Alternatively, prior to his/her departure from Japan, the expatriate can appoint a Japanese resident as tax administrator to act on his/her behalf in relation to 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. 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, the taxpayer is required to file a tax return and pay any outstanding tax prior to departure).

Tax Refund

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

Reporting permanent departure

74. You should deregister your (and your family's) residency at your local ward office before your permanent departure from Japan, and surrender your residence Card to the immigration authorities at the airport at the time of your permanent departure. This will officially indicate the individual's departure to the respective authorities and help support the fact that you have terminated your Japanese residency.

Timing of departure

75. We advise to seek advice regarding the timing of permanent departure from Japan. Any payments, equalizations, or bonuses received after departure relating to Japanese employment may be subject to tax in Japan at the non-resident rate of 20.42%.

Exit Tax

76. In 2015, a new tax law has been passed to tax on unrealized capital gains from certain financial assets such as securities, derivative transactions etc. for certain residents moving overseas This new rule is applicable to those who depart from Japan on or after July 1, 2015 and applicable to exits, as well as certain gifts and inheritances of property, made by a Japanese resident to non-residents on or after July 1, 2015. Japan residents who satisfy both of the following conditions are subject to 'exit tax':

a) Individuals who hold certain financial assets such as securities and derivatives with total value of JPY 100 million or more upon departure from Japan

b) Individuals who had maintained jusho or kyosho in Japan for five years or more during the 10-year period immediately prior to the Japan departure.

Note 1) The impact on foreign expatriates in Japan will be limited, since residents with the most common types of temporary work visas such as, specialists in the humanities/international services, intra-company transferee, and business investor are excluded from the scope of the exit tax.

Note 2) For foreign nationals, the five out of the last ten years 'clock' starts from July 1, 2015. Therefore, foreign nationals, regardless of the visa that they hold, will not be subject to the exit tax until June 30, 2020 at the earliest.

Since exit tax is very complicated, please contact PwC for a deeper discussion when necessary.

Step 7:
Other matters requiring consideration

Inheritance and gift tax

77. Inheritance tax is a national tax levied on recipients of an inheritance. Inheritance tax is levied on worldwide assets inherited if an individual inherits assets while s/he resides in Japan, or if an individual not residing in Japan inherits when the deceased resided in Japan at the time of death (unlimited taxpayer). For a non-Japanese national residing abroad, inheritance tax is only levied on those assets situated in Japan at the time of the decedent's death if the deceased did not reside in Japan at the time of death (limited taxpayer). Recipients who are Japanese nationals may be unlimited taxpayers if either the recipients or the deceased resided in Japan within 5 years of the inheritance. Assets subject to inheritance tax includes tangible, intangible, real or personal property, unless otherwise specifically exempt under the law. The asset is valued in accordance with the provisions of the Japanese tax rules. The same rules apply to the gift tax system.

78. The total amount of inheritance tax is first determined based on the statutory inheritance proportions of assets and the graduated inheritance tax rates applied to the each recipient's portion. The actual recipient of the inheritance assets will then be liable for the tax payment, and the tax credit if any, will apply to the actual tax payer's liabilities. The will provided in the home country be respected, however, the total amount of tax is always calculated in accordance with the statutory inheritance proportions.

79. Basically the gift tax regime is not unified with the inheritance tax, with the exception of a gift that is made within 3 years from the time of inheritance. Annual gift exemption per recipient is ¥1.1 million. Any amount of gift received above the exemption will potentially trigger Japan gift taxes. There is a special system the tax payer can make irrevocable election to integrate inheritance and gift taxes when certain conditions are met:

The special system "settlement of taxes at the time of inheritance" :

– Qualified transfers are those from lineal ascendants who are aged 60 and older made to their lineal descendants 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.

– Valuation of the gifted assets will freeze at the time of the gift, for the inheritance tax calculation.

80. Recently, special exemptions for the gift made for designated funds have been introduced. These programs are to promote the transfer of wealth from older generations to the younger and allow a certain amount of gift free of tax. Exemption is applicable only if the fund is used for the qualified expenses. A special custody agreement must be set up and a special form must be filed to report the non-taxable expenses. This account is usually maintained by a financial institution that has custody of the funds. Any amounts not used for qualified purposes would be subject to gift tax. Currently, ¥15 million of educational expenses as well as ¥10 million of expenses for the marriage and childcare are qualified for the tax exempt gifting.

81. Tax rates for Inheritance and Gift:

Japanese Inheritance tax rates

Taxable properties less exemption And various exclusions		**New Table**	
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	200,000,000	40%	17,000,000
200,000,000	300,000,000	45%	27,000,000
300,000,000	600,000,000	50%	42,000,000
600,000,000	And above	55%	72,000,000

Basic exemption for inheritance tax – JPY 30,000,000 + (JPY 6,000,000 x number of the statutory heirs)

Japanese Gift tax rates

Taxable gifts less exemptions and other exclusions		Gifts except for the right		Gift from lineal ascendants to their descendents who are at least 20 years old	
Over JPY	Not Over JPY	Tax Rate	Deduction	Tax Rate	Deduction
0	2,000,000	10%	0	10%	0
2,000,000	3,000,000	15%	100,000	15%	100,000
3,000,000	4,000,000	20%	250,000		
4,000,000	6,000,000	30%	650,000	20%	300,000
6,000,000	10,000,000	40%	1,250,000	30%	900,000
10,000,000	15,000,000	45%	1,750,000	40%	1,900,000
15,000,000	30,000,000	50%	2,500,000	45%	2,650,000
30,000,000	45,000,000	55%	4,000,000	50%	4,150,000
45,000,000	And above			55%	6,400,000

Annual basic exemption for gift tax (*) - JPY 1,100,000
(*) This basic exemption will not be applied to the irrevocable elective system mentioned above.

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

Appendix A:
National and Local Inhabitants tax rates

*2016 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	40,000,000	40%	2,796,000
40,000,001	And above	45%	4,796,000

A Tohoku reconstruction surtax was introduced and took effect 1 January 2013. The surtax is comprised of 2.1% tax that is assessed on an individual's national income tax.

2016 Local inhabitants tax rate (related to income earned during the 2015tax year, tax payable in 2016)

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

*Standard tax rate for local inhabitants' tax is 10% which is comprised of 4% of Prefecture tax and 6% of Municipal tax but there are some exceptions of the rates depending on the Prefecture and/or Municipal.

*Per capita tax 5,000, in general but there are a few prefectures and/or municipals that the per capita amounts are slightly different

Appendix B:

Effective tax rate schedule (2016)

Gross employment income level (JPY)	Japan source income	National tax including 2.1% surtax	Local tax	Effective tax rate (National tax)	Effective tax rate (Local tax)	Combined
10,000,000	9,594203	926,300	679,800	9.26%	6.80%	16.06%
15,000,000	14,391,304	2,249,400	1,145,500	15.00%	7.64%	22.64%
20,000,000	19,188,406	3,865,700	1,625,200	19.33%	8.13%	27.46%
30,000,000	28,782,609	7,650,100	2,584,600	25.50%	8.62%	34.12%
50,000,000	47,971,014	15,737,600	4,503,500	31.48%	9.01%	40.49%

Assumptions

Taxpayer is/has:

- Married with two children under 16 years old;
- Spouse and the children with no income;
- Non-permanent resident for entire calendar year;
- Compensation which is 100% paid outside Japan;
- 14 business days outside of Japan in the year;
- 21 days of home leave in the year and
- No social insurance paid in Japan.
- 2016 tax rates, exemptions, and deductions are used.
- ¥5,000 per capita tax for local tax is included.
- 2.1% surtax on national income tax is included.

Appendix C:
Tax payment timetable for expatriates

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

(2017 Calendar Year)

December 2016:	Receive your Tax Questionnaire from PwC.
January 20, 2017:	Completed Tax Questionnaire returned to PwC.
Prior to March 15, 2017:	Apply for the automatic bank transfer (ABT) method for payment of national and local tax if desired.
March 15, 2017:	Japanese tax return due for 2016. Payment of National Tax must be made on this date unless you have elected payment via Automatic Bank Transfer (ABT).
April 20, 2017:	If you have elected payment via ABT, the tax office will withdraw the balancing national tax amount from your account.
June 30, 2017:	2017 Local Inhabitants Tax payment is due on 2016 income (either lump-sum or 1st installment).
July 31, 2017:	1st Provisional National Tax payment is due for 2017.
August 31, 2017:	2nd Installment of Local Inhabitants Tax is due.
October 31, 2017:	3rd Installment of Local Inhabitants Tax is due.
November 30,,2017:	2nd Provisional National Tax payment is due for 2017.
January 31, 2018:	Fourth (Final) installment of Local Inhabitants Tax is due.

Appendix D:
Japan contacts and offices

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