Guide to Japanese Taxes and
System of Certified Public Tax Accountants

Tokyo Certified Public Tax Accountants' Association

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PREFACE

Looking back on Japan’s tax system and tax administration, before World War II it was widely thought that, even if a certain aspect of administration did not function well, it could be compensated by an ex-post facto remedy. In 1942, the Tax Practitioners Law was enacted, giving birth to the system of publicly licensing the profession of tax practitioners to assist taxpayers, but the emphasis was rather on its institutional role to support the tax administration.

In 1947, along with the postwar wave of democratization, Japan introduced a self-assessment system under which taxpayers pay taxes by filing returns based on their own calculation of their incomes, replacing the existing system of official assessment. Further in 1949, an American inspection mission headed by Dr. Carl S. Shoup visited Japan to conduct surveys on the Japanese tax system and presented the Japanese government with a set of recommendations for its modernization, known as the “Shoup Report,” which became the foundation of today’s Japanese tax structure. The recommendations called for a tax structure that was direct tax-oriented as opposed to the then-existing indirect tax-oriented structure, and proposed the strengthening of the system of self-assessed taxation.

Following said recommendations, the present Certified Public Tax Accountants Law was enacted in 1951 to replace the Tax Practitioners Law, assigning certified public tax accountants as tax professionals for the mission of supporting the self-assessed taxation system from an independent and impartial position. Furthermore, based on the Shoup recommendations, the present tax structure consists of direct taxes such as income tax and corporate tax as its center, with indirect taxes as supplementary. In the following years until today, the present tax system has evolved through a number of reforms and amendments.

As the title of this pamphlet indicates, its purpose is to provide non-Japanese with an easy-to-understand explanation of Japan’s current tax system. At the same time, it presents a simple outline of the Japanese system under which certified public tax accountants as non-governmental tax professionals act as agents for taxpayers and support the country’s tax administration. Even with this pamphlet, foreigners may have difficulty understanding the tax system particularly because of complexities due to tax treaties and other special taxations, such as transfer pricing taxation, low capitalization taxation and tax haven taxation. In such complicated cases, please feel free to consult a certified public tax accountant.

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1. Organization of Tax Administration

The tax administration in Japan is classified into two categories of the right to levy taxes: national tax and local tax. Both the national government and local governments handle various taxes as described below.

(1) Structure of National Tax

Under the National Tax Administration Agency, which is an external organ of the Ministry of Finance, there are 11 regional taxation bureaus and the Okinawa Regional Taxation Office, under which 524 tax offices have been established, to conduct tax administrative work. Taxpayers must file returns and pay national taxes such as individual income tax, corporate tax and consumption tax to the tax office with jurisdiction over the location of the taxpayers' residence.

(2) Structure of Local Tax

Local taxes are administered by the Local Tax Bureau, an internal organ of the Ministry of Public Management, Home Affairs, Posts and Telecommunications, which is responsible for planning local taxes such as prefectural tax and municipal tax and for determining which governmental body has the right to levy taxes. However, the actual taxation work is done by each local government that has the right of taxation. The prefectural tax offices and municipalities (cities, wards, towns and villages) are in charge of levying and collecting prefectural tax and municipal tax, respectively.

(3) Principle of No Taxation Without Law

The Constitution of Japan provides in Article 30 that "The people shall be liable to taxation as provided by law" and in Article 84 that "No new taxes shall be imposed or existing ones modified except by law or under such conditions as the law may prescribe," thereby declaring the state's "principle of no taxation without law." This clarifies the thinking that since taxation is a means to transfer part of the people's wealth to the state's coffer to procure funds for public services, levying and collecting taxes must be conducted based on law.

(4) Self-Assessed Taxation System

① Methods for establishing tax assessment

In establishing method of tax assessment, there is, in addition to the self-assessment method and the official assessment method, another method in which assessment comes in to effect simultaneously with the establishment of tax assessment.

The self-assessment method is the way to determine the amount of tax to be paid on the basis of taxpayers' returns and assessment and is applied to major taxes, such as individual income tax, corporate tax, inheritance tax, gift tax, corporate inhabitant tax, enterprise tax and consumption tax.

The official assessment method is to determine the amount of tax to be paid through assessment by tax administration officials, and is applied to such taxes as the property tax, automobile tax and additions to national tax.

In addition, in case of such taxes as withholding income tax and stamp tax, the amount of tax to be paid is determined, without special assessment procedures, simultaneously with the establishment of tax assessment.

As described above, taxation in Japan is based on the self-assessment system. This is the system in which taxpayers compute their tax amount, file tax returns and pay the tax voluntarily, and may be called the embodiment in taxation of the ideal of the Japanese constitution that calls for the principle of popular sovereignty.

② Filing tax returns and request for correction

There are following three types in filing tax returns.

a. Filing returns within the fixed time limit

Taxpayers paying tax under the self-assessment system must file tax returns by the legally set deadline. Returns filed according to this regulation is called tax returns filed within the fixed time limit.

b. Filing returns after the fixed time limit

Those who have failed to file returns within the fixed time limit may file returns even after the deadline, if decision by the head of the tax office has not yet been made.

c. Filing amended returns

Those who have already filed returns and those who have received decisions on tax correction may file amended returns, before corrections by the head of the tax office within their jurisdiction are made, if they find that the tax amount shown in their original returns to be understated.

Those who have filed returns in excessive tax amount may request correction of their tax amount to the head of the tax office within their jurisdiction no later than one year from the original legally set time limit for filing returns.

③ Blue return system

By filing Blue form for returns after obtaining approval from the head of the tax office, individual or corporate taxpayers, complete with required set of books and records, will be granted various privileges in filing returns of income and/or corporate tax.

This system is offered to encourage the spread of the Self-Assessment System and promote the use of account books and records.

④ e-file

Taxpayers can choose to use electronic filing or e-file, also known as e-Tax, to file returns, pay tax, make applications, and notifications.

(5) Tax Inspection and the Relief System

① Tax inspection and corrections/decisions

Under the self-assessment system, a taxpayer’s tax assessment is established based on the returns filed by the taxpayer. However, when the filed returns are suspected to contain errors or irregularities, inspection will be conducted by the head of the tax office and tax amount will be determined based on the tax inspection.

When the head of the tax office deems it necessary, the taxpayer's account books and relevant records may be inspected, in accordance with the provisions of the law.

For those who have not filed tax returns, the head of the tax office will decide following inspection, if it is found that they are liable to pay tax.

For those who have filed returns, the head of the tax office will make corrections on the tax amount when inspections show that the tax amount on their respective tax returns is under-declared.

In case that tax is imposed additionally or newly as a result of correction or determination, prescribed additional tax (surcharge) will be imposed as penalty.

② Administrative protest system and judicial action

If a taxpayer is dissatisfied with the correction or decision by the head of the tax office, a protest may be filed with the head of the tax office.

If the taxpayer is not satisfied with the decision made on the protest, the taxpayer can file a request for reconsideration with the National Tax Tribunal.

Furthermore, if the taxpayer is not satisfied with the decision made by the National Tax Tribunal, he or she can bring the case before the court.

2. System of Certified Public Tax Accountants

Corporations, business owners and certain groups of income earners are obliged to file returns on their own.

However, the Japanese tax system is so complicated that it is rather common practice for most taxpayers to retain the service of certified public tax accountants or a corporate organization of certified public tax accountants to file tax returns and other tax-related work.

(1) Services Provided by Certified Public Tax Accountants

Certified public tax accountants, as experts on tax, offer the following services, impartially and independently from the taxation authorities, to meet the taxpayers' trust and promote appropriate tax assessment and payment as expected by tax-related laws and regulations.

Services provided by certified public tax accountants or their organization in accordance with the stipulations of the Certified Public Tax Accountants Law are as follows.

① Services

a. Act as agent on behalf of a taxpayer in filing returns, making assertions or statements in the tax authorities' inspections and punishment.

b. Preparation of tax-related documents, such as tax returns, application forms, and application forms for formal protests.

c. Tax consultation

② Supplementary Services

Preparation of financial documents, account bookkeeping, finance-related clerical work, and other works in connection with the Monopoly Services.

③ Assistance Service in Litigation

(2) Certified Public Tax Accountants as Tax/Accounting Experts

Certified public tax accountants are private tax experts who are granted license pursuant to the Certified Public Tax Accountant Law. The license is given to those people who pass the national examination and those who are recognized as having equivalent capabilities. At present, there are about 70,000 registered certified public tax accountants providing various services, such as preparing tax returns, on-site assistance at tax inspections, tax consultations, and book-keeping, upon the requests from taxpayers.

In Japan, those who are not registered certified public tax accountants are not allowed to provide those services by the law. Meanwhile, the certified public tax accountants are allowed by the stipulations in the Company Law to work along with a company's board directors as accounting counselors to draft the company's financial statements, etc.

(3) Certified Public Tax Accountants' Association

Certified public tax accountants are required to be registered members of a regional association of certified public tax accountants. The Japan Federation of Certified Public Tax Accountants Associations has been organized by 15 regional associations located throughout Japan. In Tokyo, there is the Tokyo Certified Public Tax Accountants' Association, under which branches have established. Each branch covers an area which corresponds to the area of a tax office.

Associations of certified public tax accountants provide guidance, communication, and supervision to the branches and their members. The associations also provide study programs and lectures on taxes for their members.

3. Major Taxes in Japan

	National Taxes	Local Taxes	
		Prefectural Tax	Municipal Tax
Taxes on profit and income	*Income tax and Corporate tax	*Prefectural inhabitants tax *Enterprise tax	*Municipal inhabitants tax
Taxes on gifts and inheritance	*Gift tax *Inheritance tax		
Taxes on properties		*Automobile tax	*Property tax *Special landholding tax *City planning tax *Light motor vehicle tax *Business office tax
Taxes on consumption	*Consumption tax	*Golf links tax	
Taxes on transactions	*Stamp tax *Registration and license tax	*Real property acquisition tax *Automobile acquisition tax	

4. Taxes on Income

(1) Taxes on Individuals' Income

Income tax and inhabitants tax are levied on an individual's income – and enterprise tax levied to a certain degree.

① Income Tax

a. Income means total amount of revenue minus necessary expenses to earn that revenue during the year. Income is categorized into 10 types – interest, dividend, real estate, business, salary, retirement, forest land, transfer, temporary, and miscellaneous.

Individuals who have taxable income must compute their income earned between January and December every year and their tax liability (amount), and pay the tax under the self-assessed taxation system. However, salary earners are not required to file tax returns because their employers withhold tax from employees' wages and make the yearend adjustments.

Those required to file final returns are:

- those whose annual income from one source exceeds ¥20 million,
- those whose income from secondary sources, other than salary and retirement income exceeds ¥200,000,
- those who earn salaries from two or more sources

The period for filing final returns for income earned during the year is from February 16 to March 15 of the following year.

b. Classification of taxpayers

Taxes are levied on individuals according to their residential status. Residential status is classified into the following categories.

- Individuals
  - Residents *
    - Non-permanent residents **
    - Permanent residents ***
  - Nonresidents ****

Notes: * Those who have an address (domicile) in Japan and have resided continuously in Japan for one year or more are regarded as residents.

Those who enter Japan as salary earners with the intention to reside in Japan are presumed to be residents immediately after their entry into Japan, unless it is clearly recognized that their stay in Japan will not be more than one year.

** Those that are not Japanese nationals and who have had an address (domicile) or residence in Japan continuously for not more than five years in the past ten years are regarded as non-permanent residents.

*** All residents other than non-permanent residents are permanent residents.

**** All individuals who are not residents are nonresidents.

c. Scope of taxable income

Classification		Scope of Taxable Income			
		Income from sources in Japan		Income from sources abroad	
		Paid in Japan	Paid abroad	Paid in Japan	Paid abroad
Resident	Non-permanent Resident	All income taxable	All income taxable	All income taxable	Only the portion deemed remitted to Japan is taxable. (The remainder retained abroad is not taxable.)
	Permanent Resident	All income taxable	All income taxable	All income taxable	All income taxable
Nonresident		Income is taxable in principle		Income is not taxable	

② Inhabitants tax

Prefectural inhabitants tax and municipal inhabitants tax are collectively called inhabitants tax. Such inhabitants taxes are levied on a per-capita basis and per-income basis for those who have an address (domicile) as of January 1, and inhabitants taxes on a per-capita basis on those who have an office or a house even if they do not live there.

The amount of inhabitant tax is calculated on the basis of income earned in the previous year.

(2) Taxes on Corporation Income

Taxes levied on corporations' income in Japan include corporate tax as a national tax and corporate inhabitant tax and corporate enterprise tax as local taxes.

① Corporate tax

a. Corporate tax is levied on corporations' income. Corporations are divided into two categories: domestic corporations and foreign corporations. Domestic corporations have their head offices in Japan, while all corporations that are not domestic corporations are classified as foreign corporations. When a foreign corporation establishes a subsidiary or an affiliate company in Japan, those subsidiary or affiliate company is regarded as a domestic corporation. However, a branch office or a manufacturing plant set up in Japan by the foreign corporation is regarded as a foreign corporation.

b. Classification of taxpayers

Domestic corporations are liable to corporate tax both on Japanese source income and foreign source income. However, foreign corporations are subject to corporate tax only on specified Japanese source income.

c. Scope of taxable income

Domestic corporations are levied corporate tax on income for each of their business years and on income at liquidation. However, foreign corporations are subject to corporate tax only on income coming from sources in Japan during their business year.

d. Business year

Business year is the term to serve as the unit to calculate profit and loss of a corporation and is stipulated by the company's articles of incorporation.

e. Tax rates

Tax rate of 30 percent is applied, but to an annual income of ¥8 million or less of a corporation capitalized at ¥100 million or less, a lower rate of 22 percent is applied.

f. Final tax return

Corporations are required to file final returns within two months from the last day of their business year.

g. Place of tax payment

The place of tax payment for domestic corporations is the location of their head offices, and for foreign corporations, the location of their main permanent establishment in Japan, such as the main office.

h. Transfer price taxation

When the payment a corporation receives in a business deal with a partner abroad is less than arms' length price, or the payment the corporation makes in a similar deal exceeds arms' length price, that business deal with overseas partner is regarded as having been made at arms' length price.

② Corporate inhabitants tax

This tax is levied by the prefecture and municipalities (city, town or village) where a corporation has business establishments.

③ Corporate enterprise tax

This is one of the prefectural taxes imposed on businesses corporations operating in the prefecture.

(3) Withholding Income Tax

When corporations make payment of more than a certain amount to individuals or corporations, they must withhold income tax from the amount paid and pay the withheld tax to the tax office of its jurisdiction. The scope of income subjected to tax withholding and withholding rates differ, depending on whether the payee is a resident (including domestic corporations) or a nonresident (including foreign corporations). A residents' income subject to withholding tax include interest, dividend, salary, retirement allowance, and remuneration. Incomes from retirement benefits and salary are subject to progressive tax rates, while a tax rate of a maximum of 20 percent is applied to the other types of incomes.

Income tax for nonresidents can be classified as follows.

Outlines of Income Tax for Nonresidents

Types of Nonresidents / Types of income	Those who have a permanent establishment in Japan: Those who have branch office or other fixed establishment for business (No.1PE)	Those who have a permanent establishment in Japan: Those who have been operating construction work, etc. for over one year, or have agent(s), etc. who has certain qualifications (No. 2 PE, No.3PE)	Those who do not have a permanent establishment in Japan	Withholding tax
Income from business	Total taxation		Exempted	None
Income from assets			Total taxation	None
Other income from sources in Japan				None
Distribution of profits from association contract business	Total taxation after levying withholding tax		Exempted	20%
Counter-values for land transfers, etc.				10%
Counter-values for business rendering human services				20%
Rental and other revenues from leasing real estate*Interest, etc.				20%
Interest,etc.	Total taxation after levying withholding tax		Separate taxation at source	15%
Dividends, etc.				20%
Interest on loans				20%
Rents and other usage fees				20%
Salaries, other counter-values for rendering human services, public pensions, retirement allowances, etc.				20%
Prize money for advertisement of business		Subject to business in Japan	Subject to business outside of Japan	20%
Pensions and others based on contracts of life insurance				20%
Compensation benefits from installment savings				15%
Distribution of profits based on anonymous association contracts, etc.				20%

Japan currently has tax treaties with 56 countries, and under those tax treaties there could be reductions in tax rates or tax exemptions. In order to receive application of these tax relief measures, those who receive tax payment are required to submit notification concerning the tax treaties to the relevant tax office through those who are paying the tax.

5. Taxes on Gifts and Inheritances

(1) Gift tax

Those who acquired property by gift during a year must file a return the following year and pay gift tax. The return must be filed during the period from February 1 to March 15 of the following year.

Those who received gifts after January 1, 2003, can opt for tax settlement at the time of inheritance under certain conditions.

(2) Inheritance tax

Those who acquired property by inheritance or bequest must file a return and pay inheritance tax, in principle, within ten months after the date of inheritance. The person who died is called ancestor and the person who inherited property is called inheritor.

Scope of property subject to inheritance tax varies depending on whether the inheritor's address (docile) is in Japan or outside Japan.

6. Tax on Consumption

Consumption tax is levied on the sale and lease of goods and providing services in Japan and the business enterprises engaged in such business activities are obliged to pay consumption tax. However, because consumption tax is added on to the prices of goods and services, the tax is ultimately borne by consumers. Imported goods are taxable, but export products are exempted from taxation.

Individuals and corporations who collect consumption tax in their business transactions must file returns on the amount of consumption tax to be paid – the net amount of consumption tax received minus that paid by economic transactions during the accounting period.

7. Taxes on Properties and Transactions

(1) Property tax and city planning tax

① Fixed property tax

Individuals and corporations who own real property, such as land and houses, and any depreciable assets for business, such as machines and equipment must pay fixed property tax to the municipality.

② City planning tax

Those who own real property such as land and houses must pay to the municipality. This tax is aimed at financing city planning and land readjustment projects.

(2) Automobile tax and light motor vehicle tax

① Automobile tax

Car owners must pay this tax to the prefecture on the location where their automobiles are regularly garaged or stored.

② Light motor vehicle tax

Owners of motorized bicycles, light motor vehicles, small-sized special motor vehicles and two-wheeled small-sized motor vehicles must pay this tax to the municipality on the location where their vehicles are regularly garaged or stored.

(3) Business office tax

Corporations and individuals who do business in Tokyo (specially designated areas) must pay this tax in accordance with the size of the floor space of their business office and with the total amount of salaries paid to the employees.

(4) Registration and license tax

① Real property registration tax

Corporations and individuals who have registered the ownership's right of land or a building must pay this tax.

② Commerce registration tax

This tax must be paid at the time of establishment of a company, capital increase, registration of a branch, changes in board directors, change in corporate name, and other commercial registrations. This tax must be paid also when patents, copyrights and qualifications are registered.

(5) Real property acquisition tax

Corporations and individuals who have acquired land or a building must pay this tax to their prefecture.

(6) Stamp tax

Corporations and individuals who have prepared certificates of economic transactions such as various contracts, securities, receipts, etc. must pay stamp tax to the government.

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