



## Japan

### Introduction

Permanent residents are taxed on their worldwide income whereas nonpermanent residents are taxed on their Japanese-sourced income, regardless of where it is paid, and their foreign-sourced income paid in and/or remitted into Japan. Nonresidents are taxed on Japanese-sourced income only.

Individual income taxes in Japan consist of a national income tax (NIT) and a local inhabitant tax (LIT). Tax treatment is dependent upon residency status.

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## Income tax

### Liability for income tax

A person's liability for Japanese tax is determined by residency status. There are two categories of individual taxpayers: resident and nonresident. A resident is an individual who has a domicile in Japan or has resided in Japan for a continuous period of one year or more. A resident is further classified as either a nonpermanent resident or a permanent resident. A nonpermanent resident is an individual who is not a Japanese national and has had a domicile in Japan for more than 1 year and less than 5 years in the last 10 years.

A nonpermanent resident is taxed on the individual's Japanese-sourced income, regardless of where it is paid, and foreign-sourced income paid in and/or remitted into Japan. A permanent resident is a resident other than a nonpermanent resident. Therefore, an individual who is a Japanese national, who has a domicile in Japan, or has resided in Japan for more than 5 years in the last 10 years is considered a permanent resident. A permanent resident is subject to income tax on worldwide income regardless of source. A nonresident is an individual other than resident.

A nonresident is taxed only on Japanese-sourced income, without deductions or exemptions. If a nonresident is a resident of a country with which Japan has concluded a tax treaty, income may be either exempt or subject to a lower rate of tax. A nonresident is not subject to local inhabitant tax. Extended business travelers are likely considered nonresidents for Japanese tax purposes unless their assignment periods are one year or longer.

### Definition of source

Employment income is considered to arise at the location in which employment services are rendered. Therefore, salary, wage, bonus, or similar remuneration paid to an employee for services performed in Japan is considered Japanese-sourced income.

Japan also levies a 10 percent local inhabitant tax.

### Tax trigger points

Technically, there is no threshold/minimum number of days that exempts the employee from the requirements to file and pay tax in Japan. Generally, Japan's double tax treaties are in line with the OECD Model Treaty with respect to the tax-exempt treatment of foreign employees temporarily working in Japan. Japan does not adopt, however, the economic employer concept when considering the application of a double tax treaty.

### Types of taxable income

For extended business travelers, the types of income that are generally taxed are Japanese-sourced employment income.

### Tax rates

For residents, net taxable income is taxed at graduated rates ranging from 5 percent to 40 percent as national income tax, plus 10 percent local inhabitant tax. Nonresidents are subject to national income tax at a flat rate of 20 percent. Nonresidents are not subject to local inhabitant tax.

## Social security

### Liability for social security

The social insurance program in Japan consists of health insurance, nursing care insurance, pension insurance, employment insurance, and workers' accident compensation insurance. Any individuals who meet the prescribed conditions are expected to participate in these systems as an insured person, regardless of nationality. Individuals who are paid from outside Japan are not required to participate in these systems. An exemption can apply where there is a totalization agreement between Japan and the home country.

## Compliance obligations

### Employee compliance obligations

Tax returns are due by March 15 following the tax year-end, which is December 31. When a taxpayer leaves Japan, the taxpayer must file a tax return before the departure date or by March 15 of the following year if a tax agent is appointed before the departure date. Extensions of the filing deadline are not available.

### Employer reporting and withholding requirements

If compensation is paid through an onshore payroll, the employer is required to withhold income tax on the payments. If the employer of nonresidents has an office or place of business in Japan and Japanese-sourced compensation is paid to nonresidents outside Japan, the employer is required to withhold nonresident income tax on payments.

## Other

### Work permit/visa requirements

A visa must be applied for before the individual enters Japan. The type of visa required will depend on the purpose of the individual's entry into Japan.

### Double taxation treaties

Japan has an extensive tax treaty network. In addition to Japan's domestic arrangements that provide relief from international double taxation, Japan has entered into double taxation treaties with more than 50 countries to prevent double taxation and allow cooperation between Japan and overseas tax authorities in enforcing their respective tax laws.

### **Permanent establishment implications**

The Japanese Corporation Tax Law provides three types of permanent establishments: a fixed place of business permanent establishment, a long-term construction project permanent establishment, and an agency permanent establishment. There is potential that a permanent establishment of a foreign corporation could be created as a result of extended business travel, but this would be dependent on the type of services performed and the level of authority the employee has for the foreign corporation.

### **Indirect taxes**

Consumption tax is applicable at 5 percent on taxable supplies. Consumption tax registration may be required in some circumstances.

### **Transfer pricing**

Japan has a transfer pricing regime. Transfer pricing implications could arise to the extent that the employee is being paid by an entity in one jurisdiction but performing services for the benefit of the entity in another jurisdiction, in other words, a cross-border benefit is being provided. This would also be dependent on the nature and complexity of the services performed.

### **Local data privacy requirements**

Japan has data privacy laws.

### **Nondeductible costs for assignees**

Nondeductible costs for assignees include contributions by an employee to non-Japanese pension funds with minor exceptions.

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