

GLOBAL
EMPLOYER
GUIDE

JAPAN





Basic Country Facts

Full name

- State of Japan (Nippon-koku)

Capital

- Tokyo

Main Languages

- Japanese
- Ryukyuan
- Ainu
- Bonin English
- Nivkh
- Orok
- English

Population

- 126.5 million

Monetary unit

- Japanese yen

Internet domain

- .jp

International dialing code

- +81

Currency

- Japanese yen



STATUTORY LABOR REQUIREMENTS

Probation Period

- They are typically three to six months and should not exceed one year.

Annual Leave

- In Japan, employers are required to grant annual paid leave of at least 10 days upon completion of 6 months' employment.
- The entitlement increases by 1 day per year for the following 2 years and by 2 days per year thereafter, up to a maximum of 20 days per year.
- Unused annual leave expires after 2 years if not used

Public Holidays

- New Year's Day (1st January)
- Coming of Age Day (13th January)
- Foundation Day (11th February)
- The Emperor's Birthday (24th February)
- Vernal Equinox Day (20th March)
- Showa Day (29th April)
- Greenery Day (4th May)
- Children's Day (5th May)
- Constitution Memorial Day (6th May)
- Marine Day (23rd July)
- Health and Sports Day (24th July)
- Mountain Day (10th August)
- Respect for the Aged Day (21st September)
- Autumnal Equinox Day (22nd September)
- Culture Day (3rs November)
- Labor Thanksgiving Day (23rd November)



Maternity Leave

- Pregnant employees are entitled to maternity leave within 6 weeks of the expected birth date, and 8 weeks after birth. An employer is not allowed to have a female employee work within 8 weeks after giving birth, except if both:
- She wishes to resume her duties after 6 weeks after giving birth.
- The resumption of the work will not cause any problems, as certified by a doctor.
- It is not required that employers pay for maternity leave, unless the employment contract or work rules state otherwise.

Paternity Leave

- Japanese law grants both working parents a generous 12 months of parental leave.

Sick Leave

- An employer is not generally required to grant paid leave to an employee who is absent from work as a result of illness or injury, unless the work rules or employment contract provide otherwise.

Work Hours

- The fixed time system is a common way of working in Japan. It's a way to work such as from 8 am to 5 pm (including an hour break) or from 9 am to 6 pm (including an hour break), 8 hours a day, and 5 days a week (Monday – Friday).
- The standard workweek in Japan begins on Monday and ends on Friday, 40 hours per week, unless otherwise agreed with a union or via a representative of the local employees.

Overtime

- The law limits overtime work to 45 hours per month with a maximum of 360 hours in a year.
- Minimum overtime rates are:
 - Basic overtime rate – 125% of base hourly wage
 - Work on a “rest day” – 135% of base hourly wage
 - Late night overtime (between 10:00pm & 5:00am) – 150% of base hourly wage (25% added)
 - Late night overtime on a “rest day” – 160% of base hourly wage (25% added)
 - Overtime work in excess of 60 hours/month – 150% of base hourly wage
 - Late night overtime in excess of 60 hours/month – 175% of base hourly wage

Notice Period

- Under the Labor Standards Act of 1947 article 20, an employer must usually give 30 days' notice before dismissal, or pay in lieu of notice.
- An employee is permitted to resign at any time (usually two weeks' notice is required).

Severance

- Severance pay is not legally required
- Collective agreements may provide for severance pay in case of dismissals.

13th Month

- It is customary as a summer bonus and is paid in June.
- 14th month is also customary as a winter bonus and is paid in December.

Income Tax

- Foreign nationals arriving in Japan are considered to have established residence in Japan, unless employment contracts or other documents clearly indicate that they will stay in Japan for less than one year.
- Permanent residents are subject to income tax on their worldwide income, regardless of source.
- Nonpermanent residents are subject to tax on income earned in Japan (for example, employment income from services performed in Japan, regardless of payroll location) plus any non-Japan source income that is paid in or remitted to Japan.
- Taxable employment income equals gross receipts minus an employment income deduction, which is progressive.
- The maximum amount of such deduction is JPY2,200,000 for income exceeding JPY10 million.
- Directors' fees paid by a Japanese corporation to nonresidents are considered Japanese-source income and are subject to tax in Japan, even if the services are performed outside Japan.
- Local Taxes: -
 - Generally, in Japan, the local inhabitant's tax is imposed at a flat rate of 10%. Japanese local governments (prefectural and municipal governments) levy local inhabitant's tax on a taxpayer's prior year income.
 - This applies where the taxpayer is a resident of Japan as of January 1 of the current year. For local inhabitant's tax purposes, an equalization per capita tax is also assessed.
 - The standard annual amount is JPY 5,000, while this may vary based on the prefecture/municipality in which the taxpayer resides.

Taxable income (JPY)		Tax on column 1 (JPY)	Tax on excess (%)
Over (Column 1)	Not Over		
0	1,950,000	-	5
1,950,000	3,300,000	97,500	10
3,300,000	6,950,000	232,500	20
6,950,000	9,000,000	962,500	23
9,000,000	18,000,000	1,434,000	33
18,000,000	40,000,000	4,404,000	40
40,000,000		13,204,000	45



Social Security

- The social insurance program in Japan consists of health insurance, nursing care insurance, pension insurance, employment insurance and workmen's accident compensation insurance.
- Health insurance is a system of paying medical care benefits and allowances to employees and their families.
- Every individual who meets the prescribed conditions is expected to participate in these systems as an insured person, regardless of nationality. Individuals who are paid from outside of Japan are generally not required to participate in these systems.
- Non-Japanese employees that leave Japan can claim a refund of employee national pension contributions.

Contribution	Employer	Employee
Health Insurance: -		
Contribution on salary/bonuses	4.95%	4.95%
If 40 years old or older	5.815%	5.815%
Welfare pension insurance: -		
On Salaries	9.15%	9.15%
On bonuses	9.15%	9.15%
Unemployment insurance: -		
	0.6%	0.3%
Workmen's accident compensation insurance : -		
Manufacturing	0.25% to 2.6%	None
Other business	0.25% to 8.8%	None



Deductible Expenses

Personal Deductions

- Interest is not tax deductible.
- Japanese social security contributions are fully deductible.
- Medical expenses (irrespective of where they were paid) are tax deductible, with certain limitations.
- Charitable contributions designated by the Ministry of Finance in Japan are tax deductible, with certain limitations.
- Qualified contributions or donations that total, in aggregate, over JPY 2,000 are deductible in computing the national tax. The total deduction is limited to 40% of income, less JPY 2,000.
- Life insurance (or private pension) premiums paid to a Japanese agency in local currency are deductible to a limited extent in computing national and local inhabitants taxes.
- Earthquake insurance premiums are also deductible for the purpose of both national and local inhabitant's tax to a limited extent.
- Mortgage interest is not tax deductible.
- However, a tax credit on housing loans may be available for up to ten years where certain conditions are met. The total amount of tax credit is determined by the year in which the taxpayer began to reside in the property as well as mortgage balance at the end of the tax year.

Employment deductions

- A resident taxpayer who earns income from employment is eligible for an earned income deduction for purposes of both the national income and local inhabitant's tax.

- The amount of the deduction is based on the amount of the employment income and is determined by reference to a deduction table.
- Prior to the 2018 Japan Tax Reforms, a permanent and/or non-permanent resident employee can take an earned income deduction, computed by applying an appropriate rate to gross employment income (the minimum standard deduction is JPY 650,000 or gross employment income, whichever is lower).
- The deduction is currently capped at JPY 2.2 million.

Personal Deductions

- Prior to the 2018 Japan Tax Reforms, resident taxpayers are entitled to a personal exemption (JPY 380,000 for national income tax purposes, JPY 330,000 for local inhabitant's tax purposes) for themselves and their dependent spouses.
- In the case of a non-dependent spouse, a special spouse exemption (a maximum JPY 380,000 and JPY 330,000 for national income tax purposes and local inhabitant's tax purposes) can be taken, depending on the spouse's income, by taxpayers whose income amount does not exceed JPY 10 million.

Business Deductions

- Business expenses are tax deductible in some limited cases. An employer's reimbursements of business expenses, such as moving, travel, and entertainment expenses, do not constitute taxable income to the employee, provided the expenses are required for the employer's business.
- A self-employed taxpayer is allowed to claim business expenses against income, provided it can be substantiated that the expenses are necessary.

Deductible Expenses

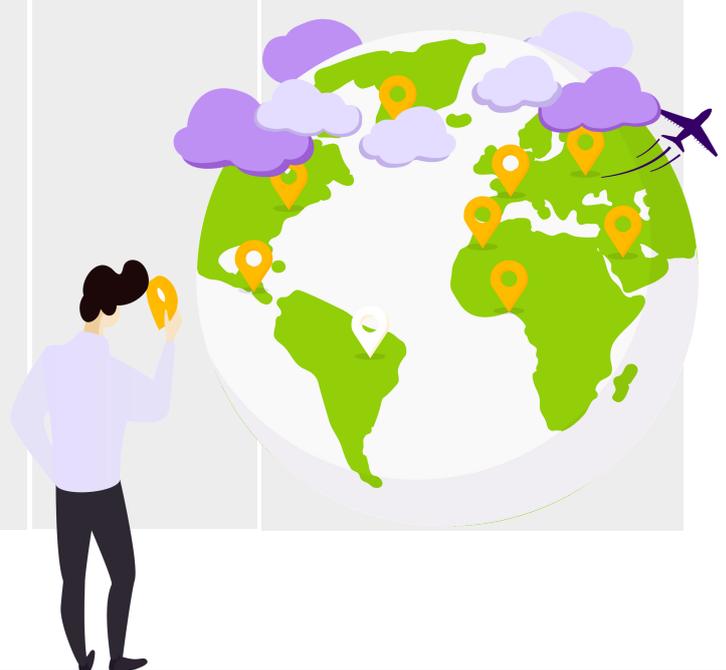
Personal Deductions	Employment Deductions	Business Deductions	Personal Allowance
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<ul style="list-style-type: none"> Life insurance (or private pension) premiums paid to a Japanese agency in local currency are deductible to a limited extent in computing national and local inhabitants taxes. Earthquake insurance premiums are also deductible for the purpose of both national and local inhabitant's tax to a limited extent. 			

Immigration

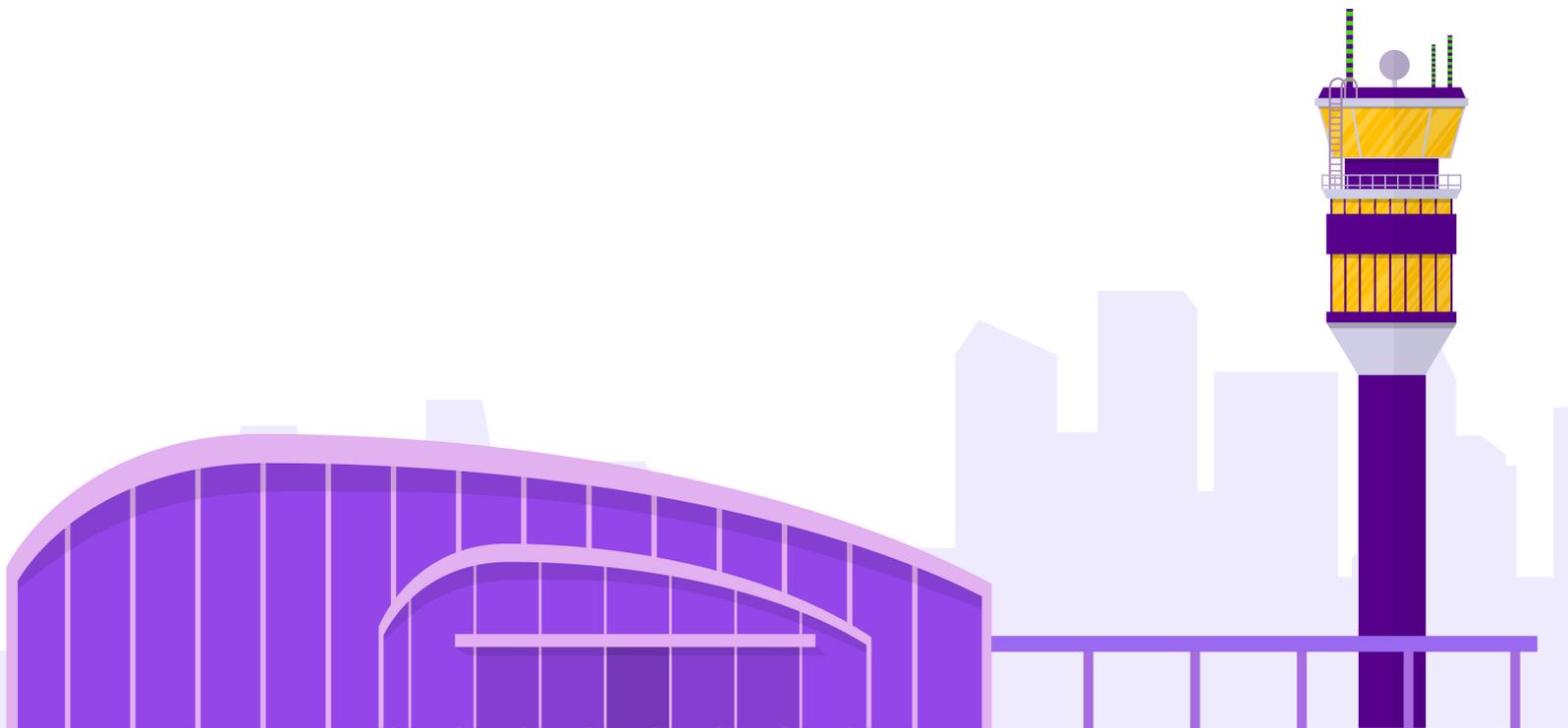
- Foreign nationals accepting employment in Japan must obtain a work permit (visa) at a Japanese embassy or consulate. To obtain a work permit, foreign nationals must first apply for a Certificate of Eligibility (CoE) from the Japanese Immigration Authority. The CoE is issued by the Ministry of Justice in Japan. The CoE certifies that the holder has met the criteria established for a certain status of residence in Japan
- It is possible for expatriates to be self-employed in Japan; however, it is very difficult. The expatriate must also obtain a CoE.
- Residence status, as defined by the Immigration Control Act, refers to the status of a foreign national under which he or she is permitted to conduct certain activities while residing in Japan.
- The following are several of the different categories of residence status available in Japan and the activities in which each category of resident is authorized to engage:
 - Official: activities on the part of those who engage in the official business of foreign governments or international organizations recognized by the government of Japan, and activities on the part of their family members.
 - Business Manager: activities involved in conducting, investing in, or operating or managing an international trade or business, or in operating or managing a trade or business on behalf of a foreign national.
 - Legal/Accounting Services: activities involved in law or accounting, which are required to be carried out by attorneys legally recognized as foreign law specialists or by certified public accountants legally practicing foreign accounting.
 - Intra-Company Transferee: activities of personnel transferred for a limited period of time to offices in Japan from foreign offices of public or private organizations who engage in the activities included in the Engineer or Specialist in Humanities or International Services categories
 - Skilled Labor: activities requiring industrial techniques or skills in special fields based on a contract with a public or private organization in Japan.
 - Specified Skilled:
 - activities involved in work requiring a significant degree of knowledge or experience with respect to a specific industry field.
 - The Specified Skilled visa (Tokutei Ginou visa) was introduced on 1 April 2019. This visa is applicable for employees with requisite technical and Japanese language skills.
 - Foreign nationals can engage in business activities in 14 specified industrial fields, such as construction, shipbuilding and marine, automotive maintenance, nursing care, and food service
 - Highly Skilled Foreign Professionals: may receive preferential immigration treatment based on a points-based system.
- The period of stay for those with residential statuses is for a maximum of five years.



Type of Visa	Documentation	Validity	Eligibility
Business Manager Visa	<ul style="list-style-type: none"> • Curriculum Vitae • Documents certifying position and salary • Certified copy of Business License or Incorporation documents • Business Plan • Evidence of office space • Financial Statement • Original and photocopy of passport • Two passport-size photos 	5 years maximum	<ul style="list-style-type: none"> • Company paid up capital must be at least JPY5,000,000. • Company must have an office space in Japan. • Business plan must be approved by the relevant authorities. • Applicant must have enough salary/income to live independently in Japan. • Hire at least one full time employee who is either a Japanese national, or a Permanent Resident
Intra-Company Transferee	<ul style="list-style-type: none"> • Documents from the organization that will be employing the Applicant in Japan: <ul style="list-style-type: none"> ◦ A copy of the company registration, ◦ A profit and loss statement, and ◦ Supporting documents that describe the company's business. • Documents from the foreign organization that is sending the Applicant to Japan: <ul style="list-style-type: none"> ◦ A copy of the company registration, and ◦ Supporting documents that describe the organization's business. • Documents regarding the Applicant: <ul style="list-style-type: none"> ◦ A diploma or graduation certificate, ◦ Documents certifying the Applicant's professional career, ◦ Documents certifying the Applicant's duties in the foreign organization and the duration of such work, ◦ Documents that certify the position the Applicant will be taking up in Japan along with details of the activity, its duration, and the associated remuneration. 	5 years maximum	<ul style="list-style-type: none"> • Activities of personnel transferred for a limited period of time to offices in Japan from foreign offices of public or private organizations who engage in the activities included in the Engineer or Specialist in Humanities or International Services categories



Type of Visa	Documentation	Validity	Eligibility
Skilled Labor	<ul style="list-style-type: none"> Evidence regarding the applicant's experience and qualifications: <ul style="list-style-type: none"> Resume, C/V. University Diploma, Certificate of Graduate. Documents which certify your work experience: e.g. Certificate of Employment issued by ex-employer. Evidence regarding the applicant's occupation in Japan, terms of employment (i.e. monthly salary, period of employment etc.) Evidence regarding the employer: <ul style="list-style-type: none"> Company Brochure or Leaflet. Certificate of Company Registration (Toukibo Touhon, Toukijikou Shoumeisho). Financial Statement for the last fiscal year. 	5 years maximum	<ul style="list-style-type: none"> Activities requiring industrial techniques or skills in special fields based on a contract with a public or private organization in Japan.





Value Added Tax (VAT)

- In Japan, the equivalent of VAT or GST is known as Consumption Tax ('CT'), and was introduced in January 1989.
- Consumption tax is a national tax levied against the volume of business and through self-assessment.
- The consumption tax rate has been raised to 10% since October 1st, 2019 for most goods and services.
- This 10% includes a 2.2% local consumption tax rate.
- The reduced tax rate of 8% (local consumption tax, 1.76%) is applied to sales of food and beverages, except for alcoholic drinks and dining out, and sales of newspapers published more than twice a week (under subscription contracts).

VAT Rates

Standard Rate	10%
Reduced Rate	8%



Withholding Tax

Dividends

- A 20% withholding tax normally is levied on dividends paid to residents and to nonresidents, unless the rate is reduced under a tax treaty.
- The rate is 15% for dividends paid by a listed company to a nonresident.
- A 2.1% surtax increases the effective domestic rates to 20.42% and 15.315%.

Interest

- Interest on loans paid to residents and to nonresidents generally is subject to a 20% withholding tax.
- The rate on interest paid to a nonresident company on deposits and bonds is 15%.
- A 2.1% surtax increases the effective domestic rates to 20.42% and 15.315%.
- The rate may be reduced under a tax treaty

Royalties

- Royalties paid to resident and to nonresident are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.
- A 2.1% surtax increases the effective domestic rate to 20.42%

Technical Service Fees

- A 20% withholding tax generally is levied on Japanese source service fees paid to residents and nonresidents, unless exempt under a tax treaty.
- A 2.1% surtax increases the effective domestic rate to 20.42%



Type of Payment	Residents		Nonresident	
	Company	Individual	Company	Individual
Dividends	20% (20.42% including surtax)	20% (20.42% including surtax)	15%/20% (15.315%/ 20.42% including surtax)	20% (20.42% including surtax)
Interest	20% (20.42% including surtax)	20% (20.42% including surtax)	15%/20% (15.315%/ 20.42% including surtax)	20% (20.42% including surtax)
Royalties	20% (20.42% including surtax)	Progressive Rates Up To 20% (20.42% including surtax)	20% (20.42% including surtax)	20% (20.42% including surtax)
Technical Service Fees	20% (20.42% including surtax)	Progressive Rates Up To 20% (20.42% including surtax)	20% (20.42% including surtax)	20% (20.42% including surtax)



Termination

- Employees have a very high level of legal protection in Japan.
- Once hired, the employer's right to dismiss an employee is severely restricted and it is very difficult to terminate employees.
- A dismissal will be invalid as an abuse of rights under local law if it lacks objectively reasonable grounds and is not considered to be appropriate in general societal terms.
- Practically, it is very difficult for an employer to satisfy these requirements.
- Termination of employees must be for a cause.
- Acceptable grounds for termination in Japan depend on the individual circumstances of each case, but are generally:
 - Theft or violence
 - Serious insubordination – must be egregious
 - Serious and on-going poor performance after formal warnings have been given, corrective training provided and other potential positions explored
 - False information regarding skills or background that impacts performance or makes the fulfillment of duties impossible
- Employers must give at least 30 days' notice of dismissal or provide payment of base salary in lieu of notice.
- It is customary for work rules to specify that an employee must give 30 days' notice of resignation.

Statutory Benefits

- These are mandatory benefits as postulated by law
- These include probationary period, annual leave, public holidays, maternity leave, paternity leave, and notice period.
- Statutory benefits also include social security benefits

Statutory Benefits

Probationary period

Annual Leave

Public Holidays

Maternity Leave

Parental Leave

Notice Period

Social Security Benefits



Payments and Invoicing

- Individual income taxation in Japan is based on the principle of self-assessment.
- In general, taxpayers must file tax returns to declare income and deductions and to pay the tax due.
- However, national income tax liability of individuals compensated in yen at gross annual amounts not exceeding JPY 20 million is settled through employer withholding if income other than employment income does not exceed JPY 200,000.
- If tax is withheld from payments to nonresidents and if the amount withheld satisfies the Japanese tax liability, the nonresidents need not file income tax returns.
- Married persons are taxed separately, not jointly, on all types of income.
- Income tax returns must be filed, and the final tax paid, between 16 February and 15 March for income accrued during the previous calendar year.
- For those taxpayers who filed tax returns for the preceding year and who reported tax liabilities of JPY150,000 or more after the deduction of withholding tax, prepayments of income tax for the current year are due on 31 July and 30 November.
- Each prepayment normally equals one-third of the previous year's total tax liability, less amounts withheld at source.
- To the extent that prepaid and withheld payments exceed the total tax due, they are refundable if a return is filed.

Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Japan ranked 29th in the World in 2019 in terms of ease of doing business.



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