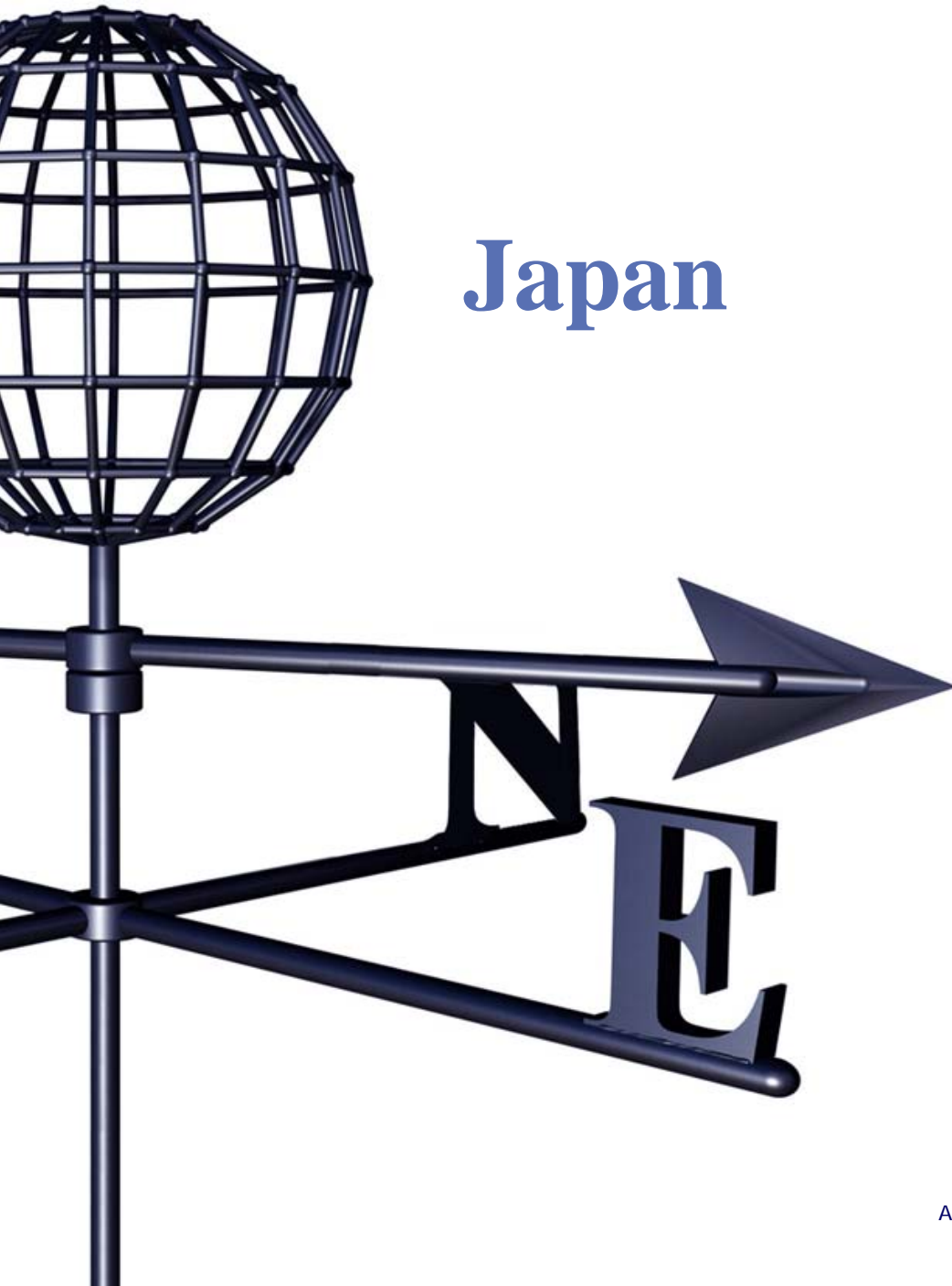


International Tax and Business Guide

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Japan

Japan International Tax and Business Guide

Tax professionals of the member firms of Deloitte Touche Tohmatsu have created the Deloitte International Tax and Business Guides, an online series that provides information on investment conditions, tax regimes and regulatory requirements, along with information for executives working abroad. The Guides are supplemented by the Highlights series, an at-a-glance summary of basic information, including tax rates, for over 120 jurisdictions.

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1.0 The investment climate

Political background

Japan is a representative democracy. Executive power rests with the cabinet, which is responsible to the Diet (parliament).

1.1 Economic structure

Manufacturing has been the mainstay of the economy since the 1960s, with electronics and the automobile industries dominating the sector. Japan is the world's largest manufacturer of machine tools, much of which is exported to the U.S. and Korea and it is also one of the world's most important iron and steel maker. Another striking feature of the economy is the high rate of investment, both in the private sector and, until recently, largely as a result of fiscal stimulus packages, in the public sector.

1.2 Banking and financing

The Ministry of Finance (MOF) regulates all Japanese financial institutions. Government regulations still impose barriers on certain bank activities. The Securities and Exchange Law, for example, protects securities companies by prohibiting banks from selling stocks and bonds. Banks, for their part, are opposed to allowing other financial institutions to perform account settlement services. However, these barriers are slowly giving way to more competitive cross-sector offerings of financial services.

1.3 Foreign trade

Japan is not a member of any regional market or trading bloc, but it has been promoting bilateral free trade agreements with regional countries to strengthen regional economic ties. Japan is a contracting party to the World Trade Organisation (WTO) and has actively participated in the Doha Development Round of multilateral trade talks.

The U.S. is Japan's most important export market, followed by China, Korea, Taiwan and Hong Kong. The country has more diversified import sources including China, the U.S., Korea, Australia, Indonesia and Saudi Arabia. Japan has forged bilateral trade agreements with some of these partners that trigger voluntary export restraints as a way to prevent a disruption of orderly trade.

Underscoring the government's long-standing emphasis on import promotion, the Ministry of Economy, Trade and Industry (METI) and the Japan External Trade Organisation have established import divisions. Japan also has a programme to develop foreign access zones with a view to offering enhanced import infrastructure facilities and eligibility for preferential tax treatment and low cost loans.

2.0 Business regulations

2.1 Registration and licensing

Any company with patents, trademarks or other intellectual property may enter into a licensing agreement with a Japanese company. The agreements are private and the foreign firm need not establish a presence in Japan. Licensing is most common in electronics, information technology, chemicals and pharmaceuticals.

Under the Foreign Exchange and Foreign Trade Law, a foreign company must notify the Ministry MOF within 15 days of the execution of a licensing agreement with an independent Japanese company, its own wholly owned subsidiary or a joint venture in order to manufacture in Japan. It also must notify the Japan Fair Trade Commission (JFTC) in the following circumstances: if the licence agreement is exclusive; the license agreement extends beyond one year; and if the licensee is a competitor with a 10% or greater market share and/or is ranked third or higher in its respective Japanese industry and/or the contract provides for setting prices in Japan for such goods or services. These notifications are followed by official reviews, the results of which are normally issued within 60 days. If the authorities believe a proposed agreement threatens national security or disrupts relevant domestic industries, they may recommend revision or cancellation. Although recommended contract changes may be negotiable, ultimate recommendations not accepted by the affected parties may be imposed by ministerial order.

2.2 Price controls

Price controls are only applicable to rice (which is also subject to import quotas).

2.3 Monopolies and restraint of trade

The Anti-Monopoly Law enables the JFTC, in consultation with METI, to break up companies it defines as monopolistic. The JFTC enforces various reporting and notification requirements of large business organisations under the Anti-Monopoly Law. They are broadly divided into two categories: one for going concerns and the other for new companies.

A company and its subsidiaries with combined assets of JPY 2 trillion (JPY 600 billion for holding companies and JPY 8 trillion for banks, insurers and securities companies) must file annual reports on business operations with the JFTC within three months of the closing of the books. A newly established company that meets the same asset-size tests must declare to the JFTC the nature of its business operations, including any subsidiaries, within 30 days from the date of establishment.

The JFTC polices collusion in pricing and, under the Anti-Monopoly Law, the following unfair business practices: concerted refusal to deal; discriminatory pricing; discriminatory treatment on transaction terms; unjust low price sales; unjust high price purchasing; deceptive customer inducement; customer inducement by unjust benefits; tie-in sales; dealing on exclusive terms; resale price restriction; dealing on restrictive terms; abuse of a dominant bargaining position; interference with a competitor's transactions; and interference with the international operation of a competing company.

To prevent a concentration of economic power in the hands of certain banks, the Anti-Monopoly Law prohibits (subject to exemptions) financial institutions that are not part of a financial holding company from holding 5% or more of the outstanding shares in a domestic company (although insurance companies may own up to 10%).

2.4 Intellectual property

Various laws provide protection for intellectual property, including Patent Law, Trademark Law, Copyright Law, Design Law, Utility Model Law and the Unfair Competition Prevention Law.

Patents

Patents in Japan are granted to the first person to file an application for a particular invention, rather than to the first person to invent it. A patent is valid for 20 years from the date an application is filed (a five-year limit applies for pharmaceutical products and agricultural chemicals, but it can be extended). A separate Design Law protects designs for 15 years. A special court, the Intellectual Property High Court, handles disputes involving patents, utility models, trademarks, integrated circuit layouts and use, copyrights, publishing rights and related rights.

Utility models

The Utility Model Law allows the registration of utility models, a minor patent form that provides for 10 years of protection from the filing date. Inventions subject to protection under the Utility Model Law are of the same nature as those protected under the Patent Law, but utility model rights are granted more expeditiously.

Trademarks and trade secrets

The Trademark Law protects trademarks and service marks. The Unfair Competition Prevention Law, which is enforced by the METI, provides additional trademark protection. Trademarks must be registered in Japan to ensure enforcement.

The only trademark protection available in Japan prior to registration comes under the Unfair Competition Prevention Law. The law defines trade secrets as technical or business information useful in commercial activities, such as manufacturing or marketing methods, which is kept secret and not publicly known. The legislation covers various types of unfair competition such as unauthorised imitation of merchandise and false indications of origin of goods. It also protects trade secrets against unauthorised disclosure or misappropriation.

Copyrights

The Agency for Cultural Affairs oversees the country's copyright system under the Copyright Law, which has been frequently amended to align the law with international copyright rules. Japan is a member state of the two conventions for international protection of copyrights: the

Berne Convention and the Universal Copyright Convention. Any work that is first published in a member state of either convention is protected in Japan under the Copyright Law. This legislation provides limitations on copyrights to permit fair exploitation of works, such as reproduction for educational and personal use as well as the recognition of neighbouring rights.

The Copyright Law prohibits unauthorised duplication and distribution of foreign recordings produced after 1971. Copyrights for sound recordings are protected for 50 years and cinematographic works, animation and video games for 70 years.

2.5 Mergers and acquisitions

While the Securities and Exchange Law and the regulations of a particular stock exchange must be considered, the Company Law sets forth the procedures for corporate mergers in Japan. Moreover, since the Anti-Monopoly Law and other commercial legislation impose reporting and licensing requirements, it is necessary to prepare a merger schedule that takes these regulations into account.

Certain corporate reorganisations -- including statutory mergers, demergers and capital contributions in kind -- may be achieved on a tax-free basis if certain requirements are met. In a tax-qualified merger, loss carryforwards of the merged company may be passed on to the merging company if additional requirements are met.

In principle, the JFTC must approve all mergers. A proposed merger that is subject to reporting under the Anti-Monopoly Law must be reported to the JFTC at least 30 days in advance. The JFTC must notify the parties of any problem within 30 days after such a consultation.

Mergers that involve at least one corporate group with aggregated domestic revenues exceeding JPY 20 billion (i.e. the domestic revenue of the parent company and its subsidiaries) and another corporate group with aggregated domestic revenues exceeding JPY 5 billion must be reported by all companies involved in the transaction. For mergers between foreign companies, sales in Japan rather than assets are the criteria used to determine whether the reporting obligation is triggered. Notification requirements are waived for mergers between a parent company and its subsidiary when the parent company already owns more than 50% of the subsidiary. There are no reporting requirements for companies with interlocking directorates.

The scope of business transfers covered by the notification rules includes: (1) a transfer of an entire business from a company with more than JPY 1 billion in total assets; and (2) a transfer of a major portion of a business or fixed business assets that account for annual sales exceeding JPY 1 billion to a company with more than JPY 10 billion in total assets.

The JFTC also imposes shareholding notification requirements on companies whose assets total more than JPY 2 billion if they have a parent company and/or subsidiaries in Japan with JPY 10 billion in combined assets. Shareholders of such companies must notify the JFTC when their ownership of voting shares in a Japanese company increases above 20% and 50% under the same 30-day reporting deadline.

3.0 Foreign investment

3.1 Foreign investment incentives and restrictions

The Japanese government imposes few formal restrictions on inward foreign direct investment, and it has removed or liberalised most legal restrictions on specific economic sectors. There are no export balancing or other trade-related requirements on foreign firms seeking to establish or increase their presence in Japan.

Prior notification to the MOF of foreign direct investment is required only in certain restricted sectors -- including agriculture, forestry, fisheries, petroleum, utilities, aerospace, defence, telecommunications, aviation, nuclear energy, maritime transport and leather manufacturing. Foreign investment is also restricted in broadcasting. The government can restrict foreign direct investment in these sectors if it determines that it would "undermine national security, disrupt public order, impinge on public safety and have serious effects on the smooth operation of the national economy." Foreign direct investment in unrestricted sectors may be reported after the investment is made.

"Invest Japan" offices assist foreign companies with M&A transactions, investments in Japanese business establishments and other investment procedures.

The Foreign Exchange and Foreign Trade Law addresses specific categories of foreign direct investment, including:

- Transfer of ownership in non-public shares from residents to nonresidents;
- Foreign acquisition of shares publicly traded on exchange and over-the-counter markets that results in a foreign stake of 10% or more;
- Establishment of a branch and change in the business content of an established branch;
- Loans of more than JPY 200 million to a Japanese business for more than one year but not more than five years and loans of more than JPY 100 million to a Japanese business for longer than five years (yen loans from financial institutions as part of normal operations are not included); and
- Foreign acquisition of privately placed bonds with a maturity of more than one year issued by a Japanese business.

3.2 Exchange controls

The Foreign Exchange and Foreign Trade Law eliminated most exchange control restrictions. Companies and individuals may open an overseas checking account denominated in yen or an alternate currency and freely engage in cross-border lending and borrowing. Domestic investors may buy and sell foreign securities on their overseas accounts. Prior notification is not required (with the exception of ex post facto reporting) for a nonresident's issue of domestic bonds (e.g. samurai or shogun bonds), or for a resident's issue of overseas bonds (e.g. Eurobonds). There are no restrictions on forex brokerage entities, including derivatives trading or over-the-counter retail trading in foreign exchange.

4.0 Choice of business entity

4.1 Principal forms of doing business

Foreign entities doing business in Japan are subject to registration and other procedural requirements under the general provisions of the Commercial Code and specific rules of the Commercial Registration Law under the jurisdiction of the Ministry of Justice.

Businesses are broadly classified into two categories: corporations and partnerships (*kumiai*). There are several different types of corporations, although joint stock companies (*kabushiki kaisha* - KK) are the dominant form of doing business in Japan. Partnerships established under the Commercial Code are silent partnerships called *tokumei kumiai* (TK), as opposed to general partnerships (*nin-i kumiai*) set up under the Civil Code. The TK is based on a contractual agreement whose terms require the "silent" or "limited" partners to contribute monetary or other assets to the partnership. The investors' liability in a general partnership is unlimited; partners assume all risks arising from the partnership's business.

A limited liability partnership (LLP) law provides for the creation of limited liability partnerships, or LLPs, which provide investors with the same limited liability protection as an ordinary corporation but with the benefits of a true partnership.

Requirements of a joint stock company (KK)

Capital. A company may be created with as little as JPY 1.

Founders, shareholders. There must be at least one founder/shareholder, who may be an individual or a legal person, although it is not necessary that the founder/shareholder be a Japanese citizen or resident. Founders must sign the articles of incorporation, but so may residents holding power of attorney for overseas interests. Since shares may be transferred from original subscribers immediately after incorporation, lawyers and others involved in the incorporation may act as founders.

Directors, management. A KK must have at least one director, who must be resident in Japan. The Commercial Code limits the authority of the company chairman and president by requiring all directors to participate in decision-making on important matters (e.g. disposing of major assets; large borrowings; hiring/dismissing managers; and establishing, altering or liquidating the business). A director may call to hold a board meeting. Labour need not be represented in management or on the board.

Large corporations. Companies with more than JPY 500 million of share capital (amount shown on the corporate register) or JPY 2 billion of liabilities, public or private) must adopt a corporate governance system based on a three-board committee: a nomination committee, a compensation committee and an audit committee. Each committee must include outside directors as majority members. Separate statutory auditors are unnecessary.

Disclosure. Financial statements, usually prepared by a licensed accountant or attorney and signed by a representative director, must be filed with the tax authorities within two months of the fiscal year-end (three months if a timely application for an extension is filed), and annually thereafter. Shareholders must receive an annual report containing a balance sheet, a profit-and-loss statement and information about the condition of subsidiary companies; a comparison of business results for the past three years; an analysis of the firm's future prospects; and a list of the largest shareholders. A group of shareholders owning at least 10% of the issued shares have the right to inspect the accounts.

Auditors. Large companies must be audited by outside certified public accountants. Statutory auditors (appointed by the company) can supervise the board's performance, demand full business reports from subsidiaries and management, and call directors' meetings if a director is believed to be engaged in any activity outside the scope of the company's business. To strengthen the auditors' independence, the Commercial Code requires their remuneration to be stated in the articles of incorporation or set by a resolution adopted at a shareholders' meeting.

Taxes and fees on incorporation. Registration tax is proportionate to share (stated) capital (including subsequent increases with a minimum of JPY 30,000). The tax is charged at a rate of 0.7% of the capital increase, with a minimum of JPY 150,000 for the incorporation of a KK. Bank commissions and legal fees may vary depending on the size of the company.

Types of shares. All types of shares may be issued, but preferred non-voting shares are limited to one-half of all issued shares. Directors may veto share transfers. Corporations usually issue standard, registered, full voting shares, with no preference, conversion or cumulative provisions, although it is possible to have shares with voting rights only on specific matters or ordinary shares without voting rights. There is no minimum share price requirement -- new and existing companies may issue shares valued at any amount, even JPY 1.

Control. Shareholders' and directors' meetings may be held in Japan or abroad. At least one ordinary meeting of shareholders must be held annually, within three months of the close of the corporation's financial year. Extraordinary meetings of shareholders may be convened upon demand by shareholders holding at least 3% of the total issued shares continuously for six months. Under the Commercial Code, shareholders owning at least 300 shares or at least 1% of a company have the right to make management proposals, suggest agenda items at shareholders' meetings and demand explanations from directors or statutory auditors.

A quorum at a shareholders' meeting is more than 50% of the issued shares, and resolutions are adopted by majority vote of the shareholders present. The quorum requirement may be waived in the articles of association for ordinary resolutions, although the minimum quorum for electing directors is one-third of the shareholders. Proxies may be issued, but must be made out separately for each meeting. Companies may allow shareholders the option of voting via the internet.

4.2 Establishing a branch

The registration formalities for a branch are simple. Application must be made in person or by proxy at the public registration office covering the locality of the intended place of business. Steps include appointing a Japanese representative and creating a place of business. Documents required include evidence of a head office, the qualifications of the representative person, and company statutes or other documents to show the nature of the foreign company.

Foreign companies planning to do business in industries deemed sensitive or important to national security must notify the METI of their business and financing plans 30 days before forming a branch, and should also notify the MOF. Failure to do so may cause either ministry to withhold permission to bring in funds.

The taxation of a branch and a KK is similar in most respects, including the rate of corporation tax. The transfer of operational funds to a branch from its head office can usually be made without restriction and is not subject to withholding tax.

"Quasi-foreign corporations," which are corporations incorporated outside Japan but that conduct most of their business in the country, are prohibited. The rules on quasi-foreign

corporations affect, in particular, foreign investment banks, brokerages, investment companies, law firms, trading companies and other businesses. These operations are typically incorporated offshore to take advantage of tax concessions and avoid Japanese regulations and the rationale underlying the rule is that, to conduct business in Japan, foreign companies should have clearly defined corporate status. As a result of the law, many foreign branches operating in Japan have been required to reincorporate as Japanese companies or close their Japanese operations.

4.3 Setting up a company

Most major foreign investors do business through the KK, although this business form has complicated requirements. Setting up a wholly owned subsidiary is an effective way of guaranteeing better protection for proprietary information, obtaining credit and penetrating markets with subtle but substantial barriers to imports.

When payment for shares is in cash, the company must deposit the funds in a bank and show evidence of the deposit before incorporation is granted. Boards of six to 10 members are common, and for a joint venture, parent companies are usually represented in proportion to their equity. Foreign firms holding only 49% equity have sometimes been able to appoint one-half of the board.

Exemptions to the JPY 10 million minimum capital requirement are available. This special measure applies to business start-ups launched by individual entrepreneurs for the first five years in business. As noted above, it is possible to establish a new entity with as little as JPY 1. The 2005 Company Law also abolished the share capital requirement, as well as the private company or YK (*yugen kaisha*) as a corporate form.

5.0 Business taxation

5.1 Overview

The Corporation Tax Law governs the principal taxes affecting companies in Japan. The corporate tax burden is high compared with other countries in the region. National corporation and local inhabitants/enterprise taxes add up to a combined burden of approximately 41%. International comparisons weigh even further in favour of other nations if their more generous tax breaks and reductions are considered. However, Japan's annual tax reforms have steadily lowered corporate tax rates as part of continuing efforts to revitalise the economy.

Japanese taxation is based on a self-assessment system: taxpayers must calculate their taxable income, file returns and pay taxes due. Taxpayers can choose between filing "blue returns" or "white returns." A corporation (or an individual who conducts a business) may file a tax return using the special blue form, which requires the taxpayer to maintain books and keep continuous accounting records that meet prescribed standards. In return, the taxpayer is entitled by law to a variety of benefits when calculating income and preferential treatment, including special depreciation allowances and loss carryovers.

To administer the self-assessment system, the tax authorities at the National Tax Agency (NTA) use a qualitative control system under which corporations are classified and scrutinised based on their level of tax compliance. There are steep penalties for evasion (35%-40% of the additional tax assessed).

5.2 Taxable income and rates

The national standard corporation tax rate of 30% applies to ordinary corporations with share capital exceeding JPY 100 million. The special tax rate available to small- and medium-size enterprises (SMEs) with share capital of not more than JPY 100 million is 18% for the first JPY 8 million of taxable income for the period 1 April 2009 to 31 March 2011.

Companies must also pay local inhabitants tax, which varies according to the location and size of the firm. The inhabitants tax, charged by both prefectures and municipalities, is levied as a percentage of national corporation tax. Each prefecture and municipality may elect an inhabitants tax rate of 5%-6% for prefectures and 12.3%-14.7% for municipalities. (The combined rate for the Tokyo metropolitan region is generally between 17.3% and 20.7%). Each prefecture and municipality also levies equalisation per capita taxes of JPY 20,000-JPY 800,000 and JPY 50,000-JPY 3 million, respectively, on each corporation with an office or place of business in its jurisdiction, depending on the amount of share capital, plus the capital surplus and number of employees.

Local Enterprise Tax, also imposed by the prefectures, has three components: 7.2% of taxable profits, 0.48% of a "value-added" factor and 0.2% of share capital and capital surplus. Small corporations are subject to only one component of enterprise tax, at a rate of 9.6% of taxable profits. Individual prefectures may increase the rates to 120% of the standard rates listed above. The effective tax rate for corporations is approximately 41% (42% in Tokyo), comprising the aggregate of national tax (30%), inhabitants tax and enterprise tax.

Corporate tax rates are the same for domestic and foreign companies. Japan does not impose an alternative minimum tax on business income.

Taxable income defined

Corporate taxes are levied on the worldwide income of a resident company. A company that has its principal or main office in Japan is considered to be resident. Foreign corporations are taxed only on Japan-source income (unless otherwise provided in a tax treaty).

The taxable income of a corporation for each accounting period is the excess of gross taxable revenue over total deductible business expenses.

Gross taxable revenue is defined as the increase in the value of assets accruing from every transaction exclusive of gains from certain capital transactions, such as share registration and share retirement. Business expenses, broadly, are the decrease in the value of net assets from all transactions other than reimbursement of capital or distribution of profits. Foreign exchange transactions are generally recognised when gains are realised or losses incurred. However, outstanding receivables and payables denominated in foreign currency at the end of an accounting period should, in principle, be valued at the rates prescribed by the tax code. When a corporation ceases to exist, either by dissolution or by a non-tax-qualified merger, corporate tax is charged on its liquidation income.

Dividends received by a resident corporation from another resident corporation are excluded from taxable income for corporate income tax purposes if the recipient holds 25% or more of the shares in the dividend-paying corporation. If a corporation holds less than 25% of the shares, 50% of the dividends received may be excluded. The 2009 tax reform introduced a new foreign dividend exemption system that exempts from tax 95% of dividends received by a Japanese company from its qualifying shareholdings of 25% or more in foreign companies (held for at least six months before the dividend determination).

A special tax credit is granted to companies that have increased their research and development (R&D) expenses: 8%-10% (12% for SMEs) of the total expenditure and an additional 5% of the incremental increase in expenditure are eligible for credit (with a limit of 20% of the corporation tax otherwise payable). For years beginning after 1 April 2009, the regular credit is limited to 30% of taxable income and under a separate limitation, the additional 5% credit is limited to 10% of taxable income. Therefore, the total credit may not exceed 40% of taxable income.

Deductions

Allowable deductions include material costs; manufacturing, trading and administration expenses; and interest, rentals and royalties paid. Management fees paid to a foreign affiliate may be deductible to the extent considered reasonable for the specific benefits derived by the Japanese corporation.

The Corporation Tax Law allows other types of tax deductions and credits for normal business operations, as follows:

- Deductions may be taken against bad debts, goods returned, repairs, overseas investment losses, natural disasters and employee severance indemnities.
- Deductions are available for charitable donations up to an amount equal to the sum of 1.25% of taxable income and 0.125% of share capital and capital surplus. Donations to foreign affiliates are not deductible.
- For corporations with capital of JPY 100 million or less, entertainment expenses of up to JPY 6 million per annum are 90% deductible, for years beginning after 1 April 2009. Deductions generally are not available to firms with capital exceeding JPY 100 million, although entertainment expenses of JPY 5,000 per person will be allowed for specified meals and beverages.
- Subject to certain conditions, bonuses paid to directors may be deductible.

Depreciation

Companies operating in Japan may depreciate their capital assets based on the legal useful life of an asset. Salvage value for tangible assets is JPY 1, and zero for intangible assets. Companies can take depreciation either by fixed amounts (straight line) or by fixed rates (declining balance) under schedules published by the MOF. Annual tax reforms include periodic adjustments to depreciation rules.

Special depreciation, in the form of accelerated initial depreciation and additional depreciation, is available for different types of assets in specified categories. Small assets worth less than JPY 100,000 may be deducted immediately and those with acquisition values of JPY 100,000-JPY 200,000 may be depreciated over three years.

Goodwill may be amortised over five years on a straight-line basis.

Losses

Tax losses may be carried forward for seven years. The loss carryback provision, which provides that a loss may be carried back for one year, is currently suspended for large companies until 31 March 2010 unless certain special events occur, such as a corporate dissolution. For corporations with paid in capital of JPY 100 million or less, tax losses incurred in periods ending on or after 1 February 2009, may be carried back for one year. Net operating loss (NOL) carryforwards may be restricted in certain situations, including following a change of ownership of more than 50% in connection with a discontinuance of an old business and commencement of a new business.

There is no loss carryback for local enterprise and inhabitants taxes, but a seven-year carryforward is permitted.

5.3 Capital gains taxation

Capital gains are taxable as ordinary income; capital losses are fully deductible subject to certain conditions. There are no adjustments for the inflationary component of gains.

To prevent nonresidents from avoiding Japanese tax on investment returns, gains derived by a company or trust that holds 50% or more of its assets in Japanese real estate are subject to Japanese tax even if the nonresident individuals or foreign corporations do not have a permanent establishment (PE) in Japan. Nonresident shareholders with no PE in Japan are also taxed in respect of disposals of at least 5% of the shares in a Japanese company where the nonresident has held at least 25% of the total shares in the last three years.

For shareholdings held through a partnership, the shareholding test is effectively determined at the partnership level rather than at the level of the partners. The rule does not affect a nonresident or a foreign corporate partner that is a qualified resident of a country that has concluded a tax treaty with Japan that excludes such income from taxation in the other country. Additionally, a 20% withholding tax is imposed on partnership income attributable to nonresident partners of a partnership that conducts business in Japan. Nonresident partners that have a PE through means other than the partnership interest should be exempt from the withholding tax because they are required to file Japanese income tax returns.

5.4 Withholding tax

Dividends

A 20% withholding tax is normally levied on dividends paid to a nonresident, unless the rate is reduced under a tax treaty. The withholding tax on dividends received from list companies is 7% until 31 December 2011; thereafter, it will be 15%. Japan does not impose a branch remittance tax.

Interest

Interest on loans paid to a nonresident corporation generally is subject to a 20% withholding tax, while that on deposits and bonds is 15%. The rate is generally reduced to 10% in Japan's tax treaties.

Royalties

Royalties paid to a nonresident for patents, trademarks, know-how or copyrights are subject to a 20% withholding tax, unless reduced under a tax treaty.

5.5 Foreign income and tax treaties

Domestic corporations are entitled to a foreign tax credit and/or an indirect foreign tax credit for taxes paid in foreign jurisdictions, subject to certain limitations. Foreign taxes levied on Japanese or foreign affiliates may be either deducted or credited against Japanese corporation and local inhabitants taxes. However, a company may not take both a credit and a deduction for the same taxes. A credit/deduction for foreign direct and indirect tax suffered is abolished in respect of dividends qualifying for the 95% foreign dividend exemption.

Japan has a broad tax treaty network. The table below contains the withholding rates that apply to dividends, interest and royalty payments by Japanese companies to nonresidents under Japan's tax treaties. In some instances, domestic rates apply if they are lower than the treaty rate.

Withholding tax rates under Japan's tax treaties (%)			
Treaty Partner	Dividends	Interest	Royalties
Armenia¹	15	10	0/10
Australia	0/5/10/15	0/10	5
Austria	10/20	10	10
Azerbaijan¹	15	10	0/10
Bangladesh	10/15	10	10
Belarus¹	15	10	0/10
Belgium	10/15	10	10
Brazil	12.5	12.5	12.5/15/20
Brunei	5/10	10	10
Bulgaria	10/15	10	10
Canada	5/15	10	10
China	10	10	10
Czech Republic	10/15	10	0/10
Denmark	10/15	10	10
Egypt	15	D	15
Fiji²	10/15	10	10
Finland	10/15	10	10
France	0/5/10	0/10	0
Georgia¹	15	10	0/10
Germany	10/15	10	10
Hungary	10	10	0/10

Withholding tax rates under Japan's tax treaties (%)			
Treaty Partner	Dividends	Interest	Royalties
India	10	10	10
Indonesia	10/15	10	10
Ireland	10/15	10	10
Israel	5/15	10	10
Italy	10/15	10	10
Kazakhstan	5/15	10	10
Korea (R.O.K.)	5/15	10	10
Kyrgyzstan¹	15	10	0/10
Luxembourg	5/15	10	10
Malaysia	5/15	10	10
Mexico	0/5/15	10/15	10
Moldova¹	15	10	0/10
Netherlands	5/15	10	10
New Zealand	15	D	D
Norway	5/15	10	10
Pakistan	5/7.5/10	10	10
Philippines	10/15	10	10/15
Poland	10	10	0/10
Romania	10	10	10/15
Russia¹	15	10	0/10
Singapore	5/15	10	10
Slovakia	10/15	10	0/10
South Africa	5/15	10	10
Spain	10/15	10	10
Sri Lanka³	20	0/20	0/10
Sweden	0/5/15	10	10
Switzerland	10/15	10	10

Withholding tax rates under Japan's tax treaties (%)			
Treaty Partner	Dividends	Interest	Royalties
Tajikistan¹	15	10	0/10
Thailand	15/20	10/20	15
Turkey	10/15	10/15	10
Turkmenistan¹	15	10	0/10
Ukraine¹	15	10	0/10
United Kingdom	0/5/10	0/10	0
United States	0/5/10	0/10	0
Uzbekistan¹	15	10	0/10
Vietnam	10	10	10
Zambia	0	10	10

(1) Since the dissolution of the Soviet Union, Japan continues to apply the 1986 treaty with the USSR with respect to all Commonwealth of Independent States (CIS) countries, i.e. Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan, until these countries negotiate new treaties of their own. The treaty is not applied to the Baltic states of Estonia, Latvia and Lithuania. (2) Under an extension of the 1962 Japan-U.K. treaty. (3) The 1967 Ceylon-Japan treaty continues to apply.

5.6 Transactions between related parties

Transfer pricing

Under Japan's transfer pricing rules, the prices of goods and services exchanged between internationally affiliated entities must be at arm's length. Internationally affiliated entities are defined as those with a relationship consisting of a direct or indirect foreign shareholding of 50% or more or a relationship that may be defined as "control[ling] in substance". The burden is on the taxpayer to demonstrate that the pricing is reasonable, and failure to do so may give rise to a transfer pricing adjustment. Advance confirmation of the reasonableness of the taxpayer's methodology may be obtained from the tax authorities.

Controlled foreign corporations

The CFC legislation was amended under the 2009 tax reform, with changes entering into effect as from 1 April 2009. The main changes deal with the treatment of dividends received/paid by CFCs. The new rules apply to profits of the CFC for periods commencing on/after 1 April 2009, so the old rules will still apply for a period for many companies (e.g. the year ending 31 December 2009 falls under the old rules).

A CFC for Japanese tax purposes may include any non-Japanese company if that company has an effective tax rate of 25% or less and the company is more than 50% controlled, directly, or indirectly, by Japanese shareholders. A CFC is considered "controlled" by Japanese shareholders where Japanese shareholders own (directly or indirectly): more than 50% of the outstanding shares; more than 50% of the voting shares; or more than 50% of the dividends rights. Japanese companies that hold (together with their associated persons) 5% of the outstanding shares (or voting shares or dividends rights, if any) of a CFC must report their share of the taxable profits of the CFC.

When a company is classified as a CFC, the Japanese company is generally taxed on the taxable profits of the CFC on a pro rata basis corresponding to its shareholding. Taxable profits may be calculated either using Japanese domestic company computational rules or the local country method of computing taxable profits, with some further adjustments. Under the old rules, all dividends received by CFCs were included in the taxable profits of the CFC. Under the new rules, dividends received from holdings of 25% or more in qualifying foreign companies, held for at least six months immediately before the date the payment obligation for the dividend is resolved will be excluded from the CFC attributable income calculation.

To be exempt from application of the CFC rules, all of the following conditions must be satisfied:

- *Active business test*: The main business of the company is not the holding of shares or debt securities; the licensing of intellectual property rights, know-how or copyrights; or the leasing of vessels or aircraft;
- *Substance test*: The company has a fixed place of business in the foreign country in which its head office is located;
- *Local management and control test*: The company manages, controls and operates the business in the country where the headquarters is located; and
- *Unrelated party transaction or local business test*: If the main business is that of wholesale, banking, trust company, securities, insurance, shipping or the air freight business, more than 50% of the business is conducted with unrelated parties, or if the main business is other than the above, the company conducts its business mainly in the country where the headquarters is located.

Thin capitalisation

The thin capitalisation rules limit the ability of foreign-owned Japanese corporations and foreign corporations with Japanese branches to extract earnings sourced in Japan at a low tax cost. In effect, interest paid on borrowings from a 50%-or-more-related foreign shareholder and not attributable to a Japanese PE of the related foreign shareholder is not deductible in the year incurred, or in any year to the extent related debt exceeds three times equity.

The following debts and related interest are included in the calculation of nondeductible interest expenses: (1) debt incurred from an unrelated foreign entity that is guaranteed by a foreign related entity (in this case, the guarantee fee paid by the Japanese corporation also will be treated as interest paid for thin capitalisation purposes); and (2) debt incurred from an unrelated foreign entity that is collateralised by bonds borrowed from a foreign related entity (in this case, any consideration paid for the bonds will be treated as interest paid for thin capitalisation purposes).

Consolidated returns

Groups of companies may file a consolidated return. The consolidated tax return system (CTRS) applies to a domestic parent corporation and its 100%-owned domestic subsidiaries. Application of the CTRS, which is voluntary, requires approval from the tax authorities. Once approved, use of the CTRS may be revoked only with approval of the tax authorities.

Consolidated taxable income is calculated for the consolidated group as a single tax unit based on the separate taxable income of each subsidiary in the group, applying necessary adjustments. Consolidated tax liability is calculated based on consolidated taxable income multiplied by the applicable tax rate, adjusted for various tax credits. The group's consolidated tax liability is allocated to the individual corporations in the group based on the taxable income or loss of each company.

Intercompany sales transactions among consolidated group corporations must be carried out at fair market prices. Recognition of profit or loss arising from intercompany sales of fixed assets, land, money claims, securities and deferred assets is deferred, unless such intercompany sales are made twice.

Consolidated net operating losses may be carried forward for seven years. However, a net operating loss incurred by a corporation before the introduction of the CTRS and before joining the consolidated group cannot qualify for a consolidated carryforward treatment except for limited cases, such as a net operating loss of the parent company. The tax rate under the CTRS is the same as that applicable to an ordinary corporation.

5.7 Turnover and other indirect taxes and duties

Consumption tax

Japan's national and local indirect tax, known as the consumption tax (JCT), applies to purchased goods and services and the import of goods. It is a broad-based value added tax that is charged to end users; businesses are thus effectively collectors of the tax. The tax rate is 5% (with 4% treated as national consumption tax and 1% as local consumption tax). The amount of JCT payable by businesses is based on the total amount of sales in a given tax year. Retailers and service providers must display price tags that include the 5% JCT.

The following are examples of domestic transactions that are subject to JCT: (1) transfer of tangible assets and intangible property rights; (2) services such as transport, contracting and processing; (3) services provided by professionals such as certified public accountants or attorneys; and (4) leasing by businesses (not limited to leasing companies).

The following general criteria are used to determine whether a transaction is domestic and thus subject to JCT: for the transfer or lease of an asset, the physical location of the asset that is the subject of the transaction; and for the performance of services, the performance location.

Intangible assets purchased abroad are taxable only when the transaction is considered a "domestic" transaction. For example, a royalty payment made for the use of patents or trademarks that are registered only in Japan are subject to JCT, even if the payment is made to a company outside Japan.

Tangible assets imported from a bonded area are also subject to import JCT.

The following transactions are exempt: transfer or leasing of land; transfer of securities; transfer or exchange of currency; interest on loans, guarantee fees and insurance premiums; and medical care covered by insurance, etc. All export transactions are zero rated (hence, the entrepreneur is entitled to an input credit) and evidence of export is required. The following defines export transactions: transfer or lease of a tangible or intangible asset for use outside of Japan; performance of services for a company resident outside Japan; international transport of passengers or freight, and telephone and postal communication between Japan and a foreign country; and transfer, leasing or repair of a vessel or aircraft in use for the transport as described above.

If taxable sales for consumption tax purposes do not exceed JPY 10 million in the base period (two taxable years before the current year), the company may elect (binding for two taxable years) to be a voluntary JCT taxpayer. If taxable sales for consumption tax purposes exceed JPY 10 million in the base period, the company must file a JCT return, and remit the applicable tax to the authorities.

Customs duties

Customs duties are imposed on imports into Japan, mainly at *ad valorem* rates, which cover about 90% of all tariff items. Nevertheless, specific tariffs apply to a range of imported products, including vegetable oils, foodstuffs, alcoholic beverages and petroleum products. Japan uses high tariffs to protect its high-cost but politically sensitive farming sector.

A simplified tariff system for low value imported freight valued at less than JPY 100,000 (e.g. small packages for personal imports) simplifies the determination of tariff rates, eliminates the extra time necessary to determine the type of product and precise value, and minimises customs brokers' handling charges. Importers may choose either the normal rate or the simple tariff, which might be higher or lower. An advance ruling may be obtained on tariff classification and duty rates from a local customs office.

5.8 Other taxes

Registration and licence tax

Registration and licence tax is levied on registrations in official books or documents in connection with the acquisition, creation, transfer, alteration or lapse of rights; for the practice of certain professions; and for obtaining a business licence. Taxable registrations and licences include registration of real estate and ships; registration of commercial companies; registration of patent rights, design rights, utility model rights and trademarks; registration for practice by qualified lawyers, doctors, accountants and appraisers; a licence to operate in the banking business; and a liquor business licence. Registration tax rates vary according to the value of the property.

Stamp duty

Stamp duty of JPY 200 to JPY 600,000 is imposed on the execution of taxable documents such as deeds of contract and certificates.

5.9 Tax compliance and administration

A corporation or a branch must file a final tax return within two months of the close of its fiscal year. The company selects its tax year when it begins operations in Japan (and the accounting period must not exceed 12 months). Taxes must be prepaid halfway through the tax year in an amount equal to 50% of the tax payable on the previous year's earnings or 50% of the current year tax. Enterprise taxes paid during the current period are deductible in calculating taxable income under both the national corporation tax and the enterprise tax itself. The rules governing the filing of returns are the same for both foreign and domestic companies.

Companies may file either a blue or a white return. The blue return carries a wide range of deductions, including tax loss carryforwards, and accelerated depreciation privileges. To use this form, firms must apply before the beginning of the applicable tax year.

Taxpayers that want to file electronically must request user identification numbers and passwords from local tax offices. In filing tax returns and other documents, they must use electronic signatures and certifications.

If the NTA suspects an underreporting of income, it will conduct a field audit. This probe varies in depth, but generally starts with a study of how books, accounting records and inventory are kept. Tax auditors may examine third parties and the concerned company's bank accounts. Under the National Tax Collection Act, national tax claims are collected before other public claims (such as unemployment insurance premiums) or private claims. Interest rates on delayed tax payments are set at four percentage points above the official discount rate.

Japan has a limited advance ruling system which is generally available to the public, subject to certain restrictions (i.e. no hypothetical cases).

6.0 Personal taxation

6.1 Residency

An individual may either be a permanent resident or a non-permanent resident if the individual has a domicile in Japan. Permanent residents are subject to tax on their worldwide income; non-permanent residents are taxed only on Japanese-source income as long as the foreign-source income is not remitted into Japan or not paid in Japan.

An individual who is domiciled or who has a residence in Japan for one year or more is a resident. A non-Japanese national who has spent five years or less in Japan in the preceding 10-year period is regarded as a non-permanent resident. A resident other than a non-permanent resident is regarded as a permanent resident. A non-permanent resident must report Japanese-source income and foreign-source income paid in or remitted to Japan as taxable income.

An individual who does not qualify as a permanent or non-permanent resident is a nonresident. A nonresident pays tax only on Japanese-source income. Salaries, wages, bonuses and other allowances are viewed as income from sources in Japan if services are performed in Japan.

Individuals entering Japan as employees are presumed to be residents on the day after entry, unless evidence shows that their stay in Japan is to be for less than one year. A nonresident who is a resident of another country may be exempt from Japanese tax under an applicable tax treaty.

A resident who is domiciled in Japan as of 1 January of the following year is subject to the local inhabitants tax. Unlike national income tax, the local inhabitants tax is levied on income derived in the previous year.

6.2. Taxable income and rates

Taxable income of individuals is based on the calendar year. Income tax is levied on a self-assessment basis, with the income tax liability determined by the taxpayer's declaration based on proper records of the tax base and the tax amount due. National income tax on employment income is withheld at source according to various tax tables based on a taxpayer's income and

personal deductions. There are separate tables on salary for withholding national income tax for periodic employment income, bonuses and other special payments. Taxable income for the local inhabitants tax is calculated under rules in the Income Tax Law, unless otherwise specified by local tax laws.

Employment income includes salaries, wages, bonuses and other allowances (such as cost of living, housing, tax, children's education or medical) received as compensation for services provided as an employee. Some allowances (such as for commuting expenses, whichever is lower than the actual monthly expense or JPY 100,000 per month) are not taxable, but low-interest loans provided by an employer for an employee's purchase of a home and other expenditure may be taxable as employment income.

Exemptions and deductions

In computing taxable income, an individual is entitled to certain allowances and deductions for national income tax purposes. A resident taxpayer is entitled to a basic personal deduction, exemptions for a dependent spouse, children younger than 16 and children aged 16–22 years. Special exemptions exist for the disabled. Similar exemptions and deductions are available for purposes of the local inhabitants tax.

In addition, a cumulative employment income deduction may be taken according to the following schedule: 40% of gross employment income up to JPY 1.8 million, with a minimum of JPY 650,000; 30% on income exceeding JPY 1.8 million and up to JPY 3.6 million; 20% on income exceeding JPY 3.6 million and up to JPY 6.6 million; 10% on income exceeding JPY 6.6 million and up to JPY 10 million; and 5% on income exceeding JPY 10 million.

Social insurance premiums paid to the Japanese government are fully deductible, and life insurance premiums paid to Japanese companies may be deducted up to JPY 50,000. Taxpayers may deduct earthquake insurance premiums of up to JPY 50,000. Medical expenses and contributions to charities recognised by the MOF are partially deductible. The first JPY 5,000 in qualifying contributions is not deductible; amounts exceeding that amount may be deducted up to a maximum of 40% of gross taxable income. Qualifying contributions include those made to governments, municipalities, organisations, corporations, the Japanese Red Cross and foundations for educational, social welfare, scientific or similar purposes. Qualified medical expenses are deductible up to JPY 2 million, after deducting the lower of 5% of gross income or JPY 100,000. Other deductions also may be available.

A tax credit on housing loans may be available for 10 years under certain conditions. The amount of the credit is determined by the year in which a taxpayer began residing on the property and the mortgage balance at the end of the year. Other tax credits may be available for home improvements for energy saving or disabled access.

Foreign income taxes paid by residents may be credited against their Japanese tax.

Investment income

Taxable dividend income received by resident taxpayers is generally taxed at marginal rates. A 20% withholding tax may be imposed on dividends paid from Japanese companies but this rate can be reduced to 10% on dividends paid to taxpayers under certain conditions 31 December 2011. The withholding tax may also be reduced under a tax treaty. Any tax withheld from dividends paid by Japanese companies to nonresident individual taxpayers is considered a final tax.

A 20% withholding tax is levied on interest paid to individual resident taxpayers. The normal withholding tax on interest paid to nonresidents is 15%, but the rate may be lowered under an applicable tax treaty.

Share options

The NTA treats share option gains as employment income. The difference between the grant price and fair market value at the exercise is taxed at the time the share options are exercised. In practice, the NTA accepts a time-apportionment basis for the sourcing of a gain relating to share options exercised by an individual who was resident in Japan at any time during the period between grant and exercise. Therefore, in cases where nonresident or non-permanent resident taxpayers exercise share options, only a portion of the gain may be subject to tax if the options relate to overseas stocks are not delivered in Japan.

There are generally no withholding requirements on the exercise of shares of non-Japanese companies, and the individual is required to report the income on his/her annual personal

national income tax return. Compliance requirements for companies using approved Japanese stock option plans can be onerous when option holders travel outside of Japan and trigger reporting obligations in a host location in addition to any reporting and tax obligations in Japan.

Rates

Progressive income tax rates are imposed up to 50%; the rates are uniform and are not dependent on marital or other status.

Individuals are taxed on gains from the sale of shares at 20% (10% through December 2011 on listed shares, subject to certain conditions). Long-term gains of individuals from the sale of land are taxed at 20%. Short-term gains are generally taxed at 39%.

Compliance

Income derived from employment, dividends, interest and retirement is taxed at source at the time of payment. When salaries, wages and other allowances are paid, the employer withholds national income tax at source. Because the employer also makes year-end adjustments of withholding tax in final payments for the year, taxpayers generally are not required to file final tax returns. There are a few exceptions, however, when an employee must individually report earned income (i.e. when total employment income receipts exceed JPY 20 million or the individual earns employment income from abroad). The Income Tax Law provides the rules for individual income on a withholding or self-assessment basis.

6.3 Special expatriate tax regime

There is no special expatriate tax regime in Japan. However, most expatriates fall into the non-permanent resident category discussed above. A non-permanent resident is taxed on all income from Japanese sources and non-Japanese source income to the extent such non-Japanese source income is remitted into or paid in Japan.

Japanese-source employment income is determined by a ratio calculated as follows: 365 days (or the number of days worked if less than 365) minus home leave and foreign working days divided by 365 days (or the number of days worked if less than 365) minus home leave days.

6.4 Capital taxes

Inheritances and gifts that exceed basic exempt amounts are taxable at steeply graduated rates (generally 10%-50%). Fixed assets tax is levied, by the municipality, at an annual rate of 1.4% to 2.1%. City planning tax is levied on land and buildings in certain urban areas as a surtax to the fixed asset tax. Real property acquisition tax is levied on the purchase of land or buildings at 4% of the assessed value at the time of acquisition. A real estate registration tax of 0.4% to 2% is also levied at the time of registering the acquisition.

7.0 Labour environment

7.1 Employees' rights and remuneration

Major Japanese labour statutes include the following: the Labour Standards Law, which regulates working conditions; the Labour Union Law, which guarantees workers the rights to organise, bargain collectively and act collectively; the Labour Relations Adjustment Law, which specifies labour-management adjustments and means of resolving disputes; the Workers' Accident Compensation Insurance Law, which requires employers to insure workers, with premiums borne entirely by the employer; the Welfare Pension Law; the National Health Insurance Law; and the Equal Employment Opportunity Law, which guarantees equal opportunities for female employees. Other relevant laws include the Minimum Wage Law, the Domestic Labour Law, the Job Security Law, the Law on Employment Security for Elderly Workers and the Law Promoting Employment of the Handicapped.

The Ministry of Health, Labour and Welfare (MHLW) publishes a variety of administrative guidelines on issues such as applying and interpreting labour laws and enforcing safety rules in the workplace. A newly established business that is hiring employees must compile its rules stipulating working hours, wages and other benefits with a local labour standards inspection office.

Working hours

The Labour Standards Law requires companies to limit working hours to eight per day and 40 per week. Longer working hours (usually 44) are allowed for the retail and service sectors.

Overtime pay is usually 125% of the hourly wage and is limited to four to six hours weekly. Overtime pay beyond this limit varies by company. The minimum vacation time is 10 days per year. Vacation time increases by one day for each year during which the worker's attendance is 80% or more of the total working days, up to a maximum of 20 days.

7.2 Wages and benefits

The salary structure of Japanese corporations is often based on seniority. There has been an increase in the percentage of salary tied to job performance, but pay remains closely linked to the age of the employee and the number of years of service. Foreign-owned firms are popular among younger workers partly because they give less priority to seniority. Leading Japanese companies are also beginning to change their compensation practices.

More Japanese companies are also adopting share options as non-cash incentives for their employees, although they remain a small portion of the corporate sector. Share options were first permitted under the Commercial Code in 1997 and recent reforms have increased their flexibility. For example, companies may grant share options to directors and employees as well as to anyone outside of the company, if approved by shareholders.

Fringe benefits and other non-basic wage components represent roughly one-third of the total per capita wage cost. Japanese firms traditionally provide a much wider range of fringe benefits than firms in other countries. Some are required by law, including pension contributions, national health insurance, workers' compensation and unemployment insurance -- all under the MWLW. Firms also frequently offer family allowances, subsidised medical and dental care, subsidised meals, holidays and excursions, housing and recreational facilities.

The total annual package usually consists of 12 regular monthly payments and two bonuses. Some foreign firms, however, do not adhere to the bonus system. Bonuses are generally paid as a multiple of the monthly base salary. Total summer and winter bonus payments typically amount to five months' salary. In short, nearly 30% of the total annual salary reflects a variable profit-sharing system. Increasingly, Japanese companies tie a percentage of the bonus multiple to assessments of an employee's job performance.

Japan has a multi-layered minimum wage system, which varies by region and industry. Hence, 47 minimum wages are set annually by each local government and 251 industry-based minimum wages are also set on the local governmental level. The MHLW issues recommendations to local governments on minimum wage policies.

Pensions

Companies often pay retirement allowances at age 60. In addition, workers frequently receive retirement allowances, usually small in amount, every time they change jobs. Japan has a national pension programme, into which an employer and an employee make payments of approximately 14% and 13% of annual pay, respectively.

Social insurance

Unemployment insurance is an increasingly important part of the typical compensation package. Currently, a salaried worker and the employer share premium payments. The average limit of unemployment benefits is 90 to 300 days. Employers may deduct reserves for severance pay from taxable income, but the tax-free character of such reserves is being phased out over four to 10 years (for SMEs).

All employers in Japan are required by law to participate in unemployment and worker disaster insurance programmes. Worker disaster compensation insurance premiums vary by industry.

7.3 Termination of employment

The Labour Standards Law allows firms to reduce overtime work, curtail shifts and furlough workers, but permanent dismissal is limited to cases of serious losses, conclusive proof of dishonesty, unsatisfactory work performance, natural calamity or another well-founded cause. Moreover, potential grounds for discharge must be listed in the firm's rules of employment.

One month's notice must be given for dismissals. Compensation payment is not mandatory and employees are entitled to at least 60% of their normal salary while laid off.

The bankruptcy law includes improved protection of employee claims on wages and retirement allowances in the event of a corporate bankruptcy. The law makes it easier for employees of a failed firm to recover unpaid wages and retirement allowances.

7.4 Labour-management relations

Most trade unions in Japan are company-based. Industry-wide unions are actually federations of such company-based unions. The union shop system often determines union member and employee status, but it is often not strictly implemented.

Most enterprise unions cover a range of regular employees, including blue- and white-collar workers. Union dues are generally collected through a check-off system, with employers deducting dues from wages. Union officials almost always retain their status as company employees.

7.5 Employment of foreigners

All travellers to Japan must have a passport. Visitors to Japan who do not have obvious means of support, onward or return tickets and other documents for their next destination may be refused entry - even if they have a visa. The following individuals do not require a visa:

- Nationals of Austria, Germany, Ireland, Liechtenstein, Mexico, U.K. and Switzerland for a visit of up to six months;
- Nationals of Andorra, Argentina, Australia, Bahamas, Barbados, Brunei, Canada, Chile, Costa Rica, Croatia, Cyprus, Czech Republic, Dominican Republic, El Salvador, Estonia, the EU (excluding Austria, Ireland, Germany and the U.K.), Guatemala, Honduras, Hong Kong, Hungary, Iceland, Israel, Latvia, Lesotho, Lithuania, Macao, Former Yugoslav Republic of Macedonia, Malta, Mauritius, Monaco, New Zealand, Norway, Poland, Republic of Korea, San Marino, Singapore, Slovenia, Surinam, Taiwan, Tunisia, Turkey, the U.S., and Uruguay for a visit of up to three months; and nationals of Brunei for a visit of up to 14 days.

A foreign national who wishes to work in Japan must submit a visa application to the Ministry of Justice for review. If approved, the authorities issue a special visa that usually limits the type of eligible employment. The visa can usually be extended before it expires. Although no work permits are required, foreigners found to be working without the proper working visas must usually leave the country voluntarily or face deportation.

The government has maintained its policy of accepting foreign workers in professional and technical fields as much as possible while discouraging the import of unskilled workers.

8.0 Office locations

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