

Japan Snapshot

Basic facts

Population	127.3m	Inflation	-0.01% (2004)*
Main languages	Japanese	GDP per head	US\$36,627*
Currency	Yen (¥)	GDP growth	2.6% (2004)*
Economic communities	Asia Pacific Economic Co-operation, OECD, WTO		
GDP sources	1.3% agriculture, 25.7% industry, 73.0% services		
*Economist Intelligence Unit estimate.			

Political environment

Japan is a representative democracy. Executive power rests with the cabinet, which is responsible to the Diet (parliament). Emperor Akihito is titular head of state.

The party-political structure is dominated by the conservative Liberal Democratic Party (LDP), which has ruled Japan either alone or in coalition for most of the time since 1955. Junichiro Koizumi, the prime minister, was re-elected on September 11th 2005. The LDP won an absolute majority in the lower house for the first time since 1990.

Foreign trade and investment

Exports	US\$540.3bn (2004)*	Imports	US\$407.3bn (2004)*
*Economist Intelligence Unit estimate.			

Leading export markets: the US (largest), China and Korea.

Major exports: Industrial and consumer machinery and equipment, transport equipment, chemicals and metals.

Japan ranks 25th of 60 countries in the Economist Intelligence Unit's business environment rankings.

Although few formal restrictions apply to inward foreign direct investment, informal barriers include complex regulations, opposition from local business lobbies and high costs. Direct investments must be reported to the Ministry of Finance, although in most industries this can happen after the fact.

Business and financing

Business forms	Joint-stock companies, limited-liability companies, branches
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Foreign investors prefer three types of commercial entities: joint-stock companies (kabushiki kaisha, or KK), limited-liability companies (yugen kaisha, or YK) and branches. The KK form is the most popular, although it has some complicated requirements. Company law changes that are expected to come into effect in May 2006 will eliminate the YK, but will offer more flexible forms of the KK.

Wholly owned subsidiaries are used to protect proprietary information and penetrate markets, and there are subtle but substantial barriers to imports.

Most foreign firms prefer to work with foreign banks operating in Tokyo, although joint ventures often use Japanese banks for relationship reasons.

Labour environment

Unemployment rate	4.7% (2004)*	Minimum wage	Varies by region and industry
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*Economist Intelligence Unit estimate.

Lifetime employment was once standard practice, along with elaborate fringe benefits and seniority-based wages. But most Japanese firms now find this system unaffordable owing to the country's prolonged economic malaise.

Unionisation of the workforce is around 20%.

Minimum wages vary by region and industry; the average industrial minimum wage is ¥132,000 per month, and the average regional minimum wage is ¥664 per hour.

The Ministry of Justice reviews all visa applications from foreign nationals seeking permission to work in Japan.

Taxation

Corporate tax

Main rate	Effective rate, 41%
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Resident companies are taxed on their worldwide income; non-resident companies are taxed on Japanese-source income only. A company that has its principal or main office in Japan is considered to be resident. A corporation is subject to national corporation tax, local enterprise tax and local inhabitant tax. Corporation tax is charged at 30%; the enterprise and inhabitant taxes vary according to the locality. The effective rate is generally around 41%. Company law changes that are expected to come into effect in May 2006 may limit the scope of Japanese branch operations of foreign companies where the company has little or no activity outside of Japan.

Individual tax

Progressive rates to 50%

Resident individuals are taxed on their worldwide income; non-residents are taxed on their Japanese-source income only. An individual domiciled in Japan or present in Japan for one year or longer is considered a resident. A person is considered domiciled in the place that is the base and centre of the person's life. Individuals are charged tax at progressive rates to 37%, but local taxes can raise this to 50%. Local taxes include municipal and prefectural inhabitant tax, and municipal and prefectural per capita tax.

Capital gains

Generally taxed as income

Capital gains of companies and individuals are generally taxed as income. Individuals are taxed on gains from shares at 20%. However, a 10% rate applies to the sale of 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%. A lower tax rate applies to a gain on the sale by an individual of a private residence held for at least ten years.

Indirect tax

Consumption tax rate	5%
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The consumption tax applies to most goods and services. Businesses with annual turnover above ¥10m in the two years prior or ¥10m or more in capital in its first two business years must register. The effective rate is 5%. Zero-rated items include the export of goods and related services; the handling, carriage and storage of foreign cargo; the provision of services to non-residents (with certain exceptions); and the transfer or loan of patents, trademarks or copyright to non-residents. Exemptions include the transfer of land, financial services, medical services and residential rents.

Tax administration and compliance

Tax year	Corporations: accounting year; Individuals: calendar year
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Individuals and companies that keep appropriate accounting records may file tax returns under the Blue return system, giving them full access to special depreciation, the establishment of reserves and the utilisation of tax losses. Companies generally must submit the tax returns and tax payable two months after the accounting year-end, and a one-month

return extension may be available. Tax is withheld at source from the employment income of individuals. Where an individual needs to file a tax return, this is due by March 15th following the end of the calendar year.

Additional tax information

Withholding taxes	Dividends 20%, Royalties 20%, Interest on loans 20%. Interest on deposits and bonds 15%. Rates may be reduced by tax treaty.
Tax treaties	Japan has concluded more than 55 tax treaties.
Dividends	For corporations, dividends are taxable but with an exemption for domestic dividends. For individuals, a reduced rate is available for dividends from listed companies.
Revenue protection	There is transfer-pricing, thin-capitalisation and controlled foreign corporation (CFC) legislation.
Groups	Consolidated filing of tax returns is possible.
Incentives	Research and development (R&D) and information technology (IT) investment credits are available.
Other taxes	Municipal fixed assets levy, Real property transfer and property taxes.

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