



**PrimeGlobal**

*An Association of  
Independent Accounting Firms*



# DOING BUSINESS IN JAPAN





## COMPANY FORMATION IN JAPAN

Internationals are encouraged to visit Japan, meet with advisors and have the right conversations before establishing a Japanese business footprint.

### MAIN FORMS OF COMPANY/BUSINESS IN JAPAN

When starting a business in Japan, one must first decide what kind of corporation to set up, then, obtain articles of incorporation and have them notarized.

There are **five** types of corporate entities from which to choose:

1. **Kabushiki Kaisha (KK)** is a joint stock company (similar to a C-corporation in the U.S.)
  - A. **Open KK** - This is the best option for larger foreign corporations. An Open KK must have a board of directors (comprised of at least three directors), a statutory auditor, and hold quarterly directors' meetings. The Representative Director has to be resident of Japan, but does not have to be the President of the corporation. It is also permissible to have two Directors, with one being a resident of Japan, while the other can reside outside of Japan at the company's main office.
  - B. **Closed KK** – suitable for smaller corporations. Closed KKs do not require a board of directors.
2. **Godo Gaisha (GK)** – similar to a Partnership in the U.S.

GKs can only be run by an actual investor in the business, not a neutral board of directors; and, the executives in the business are not exempt, jointly or individually, from liability. The benefit of establishing a GK is that the incorporation fees are significantly less (approximately 150,000 yen) than that of other types of corporations.
3. **Yugen Sekinin Jigyo Kumiai** – similar to the Limited Liability Partnership (LLP) in the U.S.

This is not a corporation. It is a partnership between equity participants who have limited liability exposure. Taxes are levied on profits earned by the partners, not on the LLP itself.
4. **Gomei Gaisha** - This is a corporate form of partnership. All partners have unlimited responsibility. It is an old Japanese company form, and its present establishment is extremely rare.
5. **Goshi Gaisha** - This is a professional partnership where at least one general partner has unlimited liability, while other partners may have limited liability. It is an old Japanese company form, and its present establishment is extremely rare.



## LEGAL ISSUES RELATED TO ESTABLISHING A COMPANY

The company must be incorporated and registered in Japan, and have at least one officer/director who is a Japanese resident (not necessarily a Japanese national). If the entity has a board of directors, it must have a minimum of 3 directors and one statutory auditor on the board. A one shareholder or one director incorporation is possible. Incorporation documents must be notarized, and capital is established at 1 yen.

## CULTURAL CONCERNS RELATED TO ESTABLISHING A COMPANY

Japanese culture is very complex. Its people are very private. They place a high value on respect and saving face. They prefer to avoid confrontation and often communicate indirectly, by using subtle, non-verbal cues and nuance. To conduct business successfully in Japan, it is important to be aware of the cultural differences so as not to offend your Japanese counterparts.

### **GIFT GIVING**

The custom of gift giving is highly valued in Japanese culture, and there are rules of etiquette which apply. Gifts should be presented with both hands. Gifts should be accepted in this same manner, to indicate reverence and respect. Gifts should be presented toward the end of one's visit, rather than at the beginning of the visit.

Gifts should be carried into a business or home in a plain shopping bag, so that no one will immediately suspect that you will be presenting a gift. Appropriate gifts are bakery goods (cakes, cookies) from your region, high quality alcohol, and traditional business gifts such as expensive pens. Flowers given to women are a nice gift, however, do not give white flowers, which are associated with funerals. Also, do not give potted plants as they are associated with sickness. Do not give gifts with your company logo.

### **SUPERSTITIONS**

The Japanese culture has many superstitions. For example, the number four is considered unlucky and should be avoided. Any combination with the number four in it (14, 42, etc.) should also be avoided. (The Japanese word for 'four' sounds the same as the Japanese word for 'death'.) Often buildings omit the fourth floor, and hospitals go from room 3 to room 5 – room number 4 is omitted. Therefore, don't give gifts in sets of numbers of four. Proper etiquette is to give gifts in sets of 3 or 5. There is also an issue with the number 9. The word for 'nine' can also mean suffering/agony.

Conversely, the number 7 is a good number. It has significant meaning in the Buddhist culture. (Japanese Buddhists celebrate when a baby turns 7 days old, and believe that the soul crosses over 7 days after a person dies.

Colors are important in Japanese culture. For example, white flowers are used for funerals and should never be given as gifts. The color red is associated with death; funeral notices are printed in red and red is used on tombstones, so avoid sending anything written in red text; and, never write a person's name in red. The color black can also mean death, or bad luck, while black combined with red represents sexuality. Favorable colors are green, which is associated with eternity and good luck, and appropriate for use on gift cards; and, purple, which is associated with celebration and is used to represent festive holidays. (White signifies 'holiness' and using white ink on a solid color background is used for baby showers.)



## OTHER COUNTRY SPECIFIC ISSUES RELATED TO ESTABLISHING A COMPANY

There are other cultural issues that are important to understand in order to succeed in business in Japan.

1. Japanese people respect their elders. Age is revered and often goes hand-in-hand with rank in their corporate world. It is imperative that one treats older executives with a more marked deference over the younger ones. Always greet the eldest person first, before acknowledging the others.
2. Business cards are important symbols in the Japanese corporate world. In Japan, one's business card is an extension of one's identity. Disrespect the business card, and you disrespect the executive. Therefore, it is important to follow the established rules of etiquette when giving and receiving business cards. First and foremost, one must present and accept a business card with both hands.
  - A. When receiving a business card, accept it with both hands, and take a moment to read it. Then, if you are standing, place it in your business card holder. If you are seated, place the business card on the desk/table until the meeting has concluded, then, place it in your business card holder. Never put a business card in your pocket or wallet as it is considered rude.
  - B. When presenting your business card, present it with both hands, Japanese print side up, taking care to present your business card to the eldest person, first. Do not toss your business card on a desk/table, but, rather, walk over to the Japanese executive and present your card.

## PERMANENT ESTABLISHMENT IN JAPAN: BRANCH OR SUBSIDIARY?

### DEFINITION OF A PERMANENT ESTABLISHMENT

A permanent establishment is a fixed place of business that generates income or a value-added tax liability; However, Japan focuses on functional aspects to determine if an establishment qualifies as a permanent establishment. For example, one room of a hotel that has become a hub of business activities would qualify as a permanent establishment, while a structure that is used solely for the purposes of purchasing assets or storing assets would not.

A permanent establishment can be:

- a branch, or any other fixed place where business in Japan is conducted;
- a construction site or installation project;
- an Agent PE\*

*\*An Agent PE is defined as a person acting as an agent on behalf of a foreign company*



## DEFINITION AND MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

A branch office is an extension of the parent company's foreign head office, with the parent company assuming all liabilities generated by the branch. A subsidiary is a separate entity. A subsidiary acts independently and assumes liabilities and responsibilities wholly independent of its parent company

### Initial Cost Estimation to Establish a Branch vs. a Subsidiary

To establish a business entity in Japan, the **estimated** costs are as follows:

Branch: US \$90,000 – US \$100,000

- Company establishment – required documentation: US \$5,000
- Obtaining Visas: US \$2,000
- Setting up an office: US\$ 35,000 - US\$ 44,000
- Hiring local personnel: US\$ 30,000
- Setting up housing: US\$ 20,000

Subsidiary: US \$137,000 – US \$146,000

- Company establishment – required documentation: US \$50,000 (includes US \$45,000, paid-in capital)
- Obtaining Visas: US \$2,000
- Setting up an office: US \$35,000 – US \$44,000
- Hiring local personnel: US \$30,000
- Setting up housing: US \$20,000

For more information, please visit [https://www.jetro.go.jp/en/invest/setting\\_up/modelcase.html](https://www.jetro.go.jp/en/invest/setting_up/modelcase.html)

## TAX AND ACCOUNTING OBLIGATIONS

The tax rate of Japanese companies is about 30%.  
The consumption tax rate (VAT rate) is currently 8%.

Companies are required to pay national and local taxes. The amount of tax owed depends on the size and location of the company, the number of branches, and the profit of the global revenue.

An enterprise must submit a final return together with the financial statements to the local tax authorities once a year. In addition, once you make a final tax return, you will incur intermediate tax payment in the middle of the year according to the tax amount of the previous year.

## STANDARD LEGAL OBLIGATIONS AND REGISTRATION FORMALITIES

When establishing a company, it is necessary to prepare the company's articles of incorporation and register it with the local legal authorities. Even in the case of setting up a branch office, establishment registration is required at local legal authorities. At the same time, it is necessary to report to the local tax authorities about the establishment of the company.





## HOW TO HIRE MY FIRST EMPLOYEE IN JAPAN

### MAIN LEGAL STEPS TO FOLLOW TO HIRE A FIRST EMPLOYEE

There are no set legal procedures in place, that employers must follow, step-by-step, in order to hire a worker, although it is understood that the Japanese government encourages and the Japanese workforce expects companies operate under a 'life-time employment' policy.

There are some basic rules that employers should know. Employers having 10 or more employees at a given workplace must adopt formal work rules and file them with the local Labour Standards Inspection Office; while employers with less than 10 employees can create work rules on a voluntary basis.

Japan has a government-run employment agency, called 'Hello Work', which is a free placement service to help people find jobs and companies find workers. There are also public organizations and universities that provide placement services, free of charge, in addition to many privately-run employment agencies.

Foreign workers must satisfy immigration requirements in order to work in Japan, and are subject to Japanese employment laws. Employers are required to notify Hello Work when it hires a foreign worker.

Japan has social security agreements with a number of countries, including Australia, Belgium, Brazil, Canada, France, Germany, India, the Netherlands, UK and the US. Workers who are insured under pension and social security programs from one of these countries may be exempt from enrolling in Japan's pension program and paying social security insurance premiums dependent upon the agreements between Japan and each country.

### DESIGN AND CONTENTS OF AN EMPLOYMENT CONTRACT

An Employer must provide the terms of employment, in writing, to the prospective employee. The Letter of Employment (Employment Contract) must specify the following:

- The term of the employment contract, or lack thereof;
- What the position requires (the duties and responsibilities the employee is expected to assume);
- Details of employment such as workplace, hours of operation (start/finish times), overtime, breaks, holidays, and rules regarding any time off (vacation, sick days, maternity leave, etc.);
- Rate of pay, the pay period and specific pay dates, how the pay is calculated, policy concerning pay increases and bonuses, severance pay, retirement provisions, and, whether the employee is eligible for any of these benefits;
- Disciplinary procedures, grounds for dismissal, and resignation protocol;
- Specifics of insurance coverage provided: healthcare coverage, worker's compensation, employment insurance and employee's pension insurance (disability, life insurance).

It is important to note the issues most troublesome for employers concern overtime calculation, changing the terms of the employment contract to negatively affect the employee, and terminating employees.



## **FINANCIAL STATEMENTS IN JAPAN**

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Financial Statements in Japan generally consist of:

### **Accounting Documents**

1. Balance Sheet
2. Profit and Loss Statement
3. Statements of Changes in Net Assets
4. Individual Explanatory Notes
  - Notations Related to Going Concern Assumption
  - Notations to Important Accounting Policy
  - Notations to Changes of Accounting Policy
  - Notations of Changes in Expression
  - Notations of Changes in Accounting Estimates
  - Notations of Balance Sheet
  - Notations of Profit and Loss Statements
  - Notations of Changes in Statements of Shareholders' Equity
  - Notations of Accounting for Income Taxes
  - Notations of Using Noncurrent Assets acquired by Leasing
  - Notations of Equity in Earnings of Affiliates
  - Notations of Business between Stakeholders
  - Notations of Information per Share
  - Notations of Important Sub-sequence Events
  - Company to Which Consolidated Dividend Regulations Apply
  - Others



## CAN SOMEBODY DO BUSINESS FOR ME AND NOT BE AN EMPLOYEE?

Businesses can and do use subcontractors. There are two main laws in effect to protect a subcontractor from unfair labor practices: the Anti-Monopoly Act and the Subcontractor Act.

The Anti-Monopoly Act prevents a company from abusing its superior bargaining position in its dealings with subcontractors. Whether a company is found to be guilty of this practice, and subsequently fined, is decided on a case-by-case basis.

The Subcontractor Act is more specific. It details the obligations and regulations that the company must adhere to, in protection of the subcontractor. For example, the company must provide, in writing, exactly what the job entails, and what is expected from the subcontractor; and, the subcontractor must receive the agreed upon payment within 60 days of the date the subcontractor has completed his job, regardless of whether or not the company has inspected the work.

If the subcontractor is a Japanese company, theoretically, the regulations would be apply to foreign companies. In reality, however, the regulations are not being enforced on foreign companies outside of Japan. Currently, the regulations are only being enforced on those companies using subcontractors in subsidiaries located in Japan.





## Consolidated Financial Statements

1. Consolidated Balance Sheets
2. Consolidated Profit and Loss Statements
3. Consolidated Statements of Changes in Net Assets
4. Tables of Explanatory Notes
  - Explanatory notes on the going concern assumption
  - Important matters to become the basis for preparation of Consolidated Financial Statement
  - Explanatory Notes on Changes of Accounting Policy
  - Explanatory notes on methods of presentation
  - Explanatory on Changes of Accounting Estimates
  - Explanatory Notes of Balance Sheets
  - Explanatory Notes on Statements of Changes in Consolidated Net Assets
  - Explanatory Notes on Financial Instruments
  - Explanatory Notes on Leased Real Property
  - Explanatory Notes on Special Purpose Entity
  - Explanatory Notes on Information per Share
  - Explanatory Notes on Important Sub-sequence Events
  - Others



[Example]

**Balance Sheet**

(As of Date, Month, Year)

Subject	Amount	Subject	Amount
Part of Properties		Part of Bonds	
Current Assets	xxx	Current Liabilities	xxx
Cash and deposits	xxx	Payable note	xxx
Negotiable Instruments Receivable	xxx	Accounts payable	xxx
Accounts Receivables	xxx	Short-term debt	xxx
Negotiable instruments	xxx	Lease obligations	xxx
merchandise and manufactured goods	xxx	Accounts payable	xxx
Work in progress	xxx	Accrued expenses	xxx
Raw materials and supplies	xxx	Accrued income taxes etc.	xxx
Prepaid expenses	xxx	Advance payment	xxx
Deffered Taxed Assets	xxx	deposit	xxx
Others	xxx	Previous receipt	xxx
loan-loss reserves	Δ xxx	Provision for ○ ○	xxx
Fixed Assets	xxx	Other	xxx
Tangible fixed assets	xxx	Fixed liability	xxx
Buildings	xxx	Bond	xxx
Structures	xxx	Long-term debt	xxx
Equipments	xxx	Lease obligations	xxx
Logistics vehicle	xxx	Provision for XX	xxx
Tools, appliances, and fixtures	xxx	Others	xxx
Lands	xxx	Total Liabilities	xxx
		(Net Assets)	
Leased asset	xxx	Shareholders' equity	xxx
Construction in process	xxx	Capital	xxx
Others	xxx	Capital surplus	xxx
Intangible fixed assets	xxx	Capital reserve	xxx
Software	xxx	Other capital surplus	xxx
Leased asset	xxx	an earned surplus	xxx
Good wills	xxx	Legal reserve	xxx
Others	xxx	Other retained earnings	xxx
Other investment assets	xxx	XX reserved fund	xxx
Investment securities	xxx	Retained earned surplus	xxx
Related stock companies	xxx	Treasury stock	Δ xxx
Long-term loans	xxx	Valuation and Translation	
Defered tax assets	xxx	Adjustments	xxx
Others	xxx	Other securities valuation differences	xxx



Loan loss reserves	Δ xxx	Deferred hedge gains	xxx
Defered assets	xxx	Land revaluation differences	xxx
Social debt issue fee	xxx	Share options	xxx
		Total of net assets	xx x
Total of assets	xxx	Total liabilities / net assets	xxx



[Example]			
<b>Balance Sheet</b>			
(As of Date, Month, Year)			
Subject	Amount	Subject	Amount
Part of Properties		Part of Bonds	
Current Assets	xxx	Current Liabilities	xxx
Cash and deposits	xxx	Payable note	xxx
negotiable Instruments Receivable	xxx	Accounts payable	xxx
Accounts Receivables	xxx	Short-term debt	xxx
Negotiable instruments	xxx	Lease obligations	xxx
merchandise and manufactured goods	xxx	Accounts payable	xxx
Work in progress	xxx	Accrued expenses	xxx
Raw materials and supplies	xxx	Accrued income taxes etc.	xxx
Prepaid expenses	xxx	Advance payment	xxx
Deffered Taxed Assets	xxx	deposit	xxx
Others	xxx	Previous receipt	xxx
loan-loss reserves	Δ xxx	Provision for ○ ○	xxx
Fixed Assets	xxx	Other	xxx
Tangible fixed assets	xxx	Fixed liability	xxx
Buildings	xxx	Bond	xxx
Structures	xxx	Long-term debt	xxx
Equipments	xxx	Lease obligations	xxx
Logistics vehicle	xxx	Provision for XX	xxx
Tools, appliances, and fixtures	xxx	Others	xxx
Lands	xxx	Total Liabilities	xxx
Leased asset	xxx	(Net Assets)	
Construction in process	xxx	Shareholders' equity	xxx
Others	xxx	Capital	xxx
Intangible fixed assets	xxx	Capital surplus	xxx
Software	xxx	Capital reserve	xxx
Leased asset	xxx	Other capital surplus	xxx
Good wills	xxx	an earned surplus	xxx
Others	xxx	Legal reserve	xxx
Other investment assets	xxx	Other retained earnings	xxx
Investment securities	xxx	XX reserved fund	xxx
Related stock companies	xxx	Retained earned surplus	xxx
Long-term loans	xxx	Treasury stock	Δ xxx



Deferred tax assets	xxx	Valuation and Translation Adjustments	xxx
Others	xxx	Other securities valuation differences	xxx
Loan loss reserves	Δ xxx	Deferred hedge gains	xxx
Deferred assets	xxx	Land revaluation differences	xxx
Social debt issue fee	xxx	Share options	xxx
		Total of net assets	xx x
Total of assets	xxx	Total liabilities / net assets	xxx

1. If there is a new stock application margin or treasury stock application margin, it is separately listed as a breakdown of shareholders' equity in the net assets section.
2. In case of lender side of finance · lease transaction, it is indicated by lease receivable and lease investment asset.
3. "Inventory" as a batch, and note the items and amounts that indicate the breakdown.
4. For asset retirement obligations, items that are deemed to be executed within one year are indicated by asset retirement obligations in current liabilities and others are presented as asset retirement obligations in fixed liabilities.
5. The balance of allowance for construction losses is recorded as current liabilities on the balance sheet. Provided, however, that if there are inventory assets and construction loss reserves pertaining to the same construction contract, the difference offsetting them can be presented as either inventory or construction loss allowance in current assets



[Example]

**Profit Loss Statement**

(Date from X year X month X date to X year X month X date)

Subject	Amount	
Sales & Revenue		xxx
Costs of sales		xxx
Total sales & revenue		xxx
Selling, general and administrative expenses		xxx
		xxx
Interest of sales		
Non-operating income		
Interest income and dividends	xxx	xxx
Others	xxx	
Non-operating expenses		
Payable interest		
Others	xxx	xxx
Ordinary profit		xxx
Extraordinary profit		
Sales of fixed assets		
Others		xxx
Extraordinary loss		
Loss categorized of extraordinary loss		
Impairment Loss		
Others		xxx
Net income for the period before taxes		xxx
Corporate tax, inhabitants tax and Enterprise Tax		
Amount of Corporate Tax Adjustment		xxx
Net Profit for current period		xxx





For companies to which Accounting Standard No. 24 "Accounting Standards for Changes in Accounting Changes and Error Corrections" is applied, an indication of gain or loss on revision of profit or loss in the previous period or loss on revision of profit or loss in the previous period (Article 88, paragraph 2, 3) will not be accepted (Article 3 of the company calculation rules).

**[Example]**

Statement of changes in shareholders' equity  
 (From Heisei X year X month X day to Heisei X year X month X day)

	Shareholders' equity									
	Capital surplus				Legal reserve	Other retained earnings		Total retained earnings	Treasury stock	Total of shareholders' equity
	Capital	Capital reserve	Other capital surplus	Total capital surplus		XX reserved fund	Retained earnings carried forward			
Heisei X year X month X day	xxx	xxx	xxx	xxx	xxx	xxx	xxx	Δxxx	Δxxx	xxx
Cumulative effect of changes in accounting policy							xxx	xxx		xxx
Balance at the beginning of the retroactive transaction	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	Δxxx	xxx
Fluctuations during the business year										
Issue of new shares	xxx	xxx		xxx						xxx
Dividend of surplus					xxx		Δxxx	Δxxx		Δxxx
Net profit							xxx	xxx		xxx
Disposition of treasury stock									xxx	xxx
XXXXXX										
Fluctuations during the business year of items other than shareholders' equity (net)										
Total amount of change during business year	xxx	xxx	—	xxx	xxx	—		xxx	xxx	xxx
Balance on Heisei X year X month X day	xxx	xxx	xxx	xxx	xxx	xxx		xxx	Δxxx	xxx



	Evaluation · conversion difference etc.				Stock options	Total net asset
	Unrealized gains on other securities	Deferred hedge gains and losses	Land revaluation difference amount	Total of evaluation & conversion difference		
	xxx	xxx	xxx	xxx	xxx	xxx
Balance on Heisei X year X month X day						
Fluctuations during the business year						xxx
Issue of new shares						Δxxx
Dividend of surplus						xxx
Net profit						xxx
Disposition of treasury stock						
XXXXXX	xxx	xxx	xxx	xxx	xxx	xxx
Fluctuations during the business year of items other than shareholders' equity (net)	xxx	xxx	xxx	xxx	xxx	xxx
Total amount of change during business year	x x x	x x x	x x x	x x x	x x x	x x x
Balance on Heisei X year X month X day	x x x	x x x	x x x	x x x	x x x	x x x



1. Please note the consistency with each item in the net assets section of the balance sheet for the classification of the statement of changes in equity.
2. The "Balance at the beginning of the year" or "Balance at the end of the fiscal year" and "Fluctuation during the fiscal year" in the description example can be described as "current change".
3. Under the Companies Act, the form of the statement of changes in equity, etc. is not stipulated, and it may be created in portrait format.
4. When retrospectively applying or correcting errors when describing "Balance at the beginning of the year", please describe the balance at the beginning of the year and the effect on the balance as described below.
5. The provision of Article 96, Paragraph 7 of the Amended Calculation Rules (finalization of provisional accounting for business combinations in the Statement of Changes in Shareholders' Equity, etc.) shall be made on or after April 1, 2016 (Heisei 28) Applicable to the financial statements pertaining to the business year to be started, those pertaining to the fiscal year commencing on or before the same day shall be deemed to be in accordance with the preceding examples, provided, however, that business beginning on or after April 1, 2015. For the items pertaining to the fiscal year, the provisions of that paragraph can be applied.

For this reason, attention to (6) is necessary depending on the business year.

6. When describing "Balance at beginning of year", if retrospective application, correction of error, or provisional accounting treatment related to business combination in the previous business year of the relevant business year is made, as described below. The outstanding balance at the beginning of the year and the effect on the balance shall be stated.

In the following description example, although "cumulative effect due to change in accounting policy" and "balance at beginning of retroactive transactions" are used in correspondence with retrospective application, In the event that it is stipulated that the effect of change in accounting policy is to be adjusted to the opening balance at the beginning of the first fiscal year due to such treatment and the provisional provision for business combination in accordance with ASBJ Statement No. 21 "Accounting Standard for Business Combinations", If the confirmation of the consolidated accounting is carried out in the fiscal year following the business combination year and only the following fiscal year following the business combination year is displayed, the effect on the opening balance will be displayed separately according to the following description example As well as the opening balance after reflecting the effect.

For example, if it is stipulated that the effect of change in accounting policy is to be adjusted to the opening balance of the first year of application in accounting standards etc., "balance at beginning of period after retroactive transaction" is changed to "reflect changes in accounting policy the balance at the beginning of the fiscal year".