

Japanese Tax Information for Non-Resident Property Owners

The following information is a brief guide to Japanese tax related to investment properties, and is not intended to cover all aspects of property-related tax regulations. The contents of this document are also liable to change as tax laws change.

Property Acquisition Tax

This is a one-off tax paid to the prefectural government after purchasing property in Japan. The tax is based on 3% of land value and 4% of building value, as evaluated by the government (usually less than market value).

The tax bill is usually issued three to six months after purchase (can be longer in strata-titled buildings), and sent to the property owner directly or their registered tax proxy in Japan. Your property manager can register as your tax proxy, and will pay the bill from your account if the account has sufficient funds.

Fixed Asset Tax

Individuals and corporations registered as owning property on the 1st of January each year are required to pay this tax to the local council. The tax rate is 1.4% to 2.1% of the property value, evaluated by the local council. The tax is similar to local council rates in many western countries

The tax bill is generally issued in May each year, and sent to the property owner directly or their registered tax proxy in Japan. Your property manager can register as your tax proxy, and will pay the bill from your account if the account has sufficient funds.

Consumption Tax

Consumption tax is presently 8%. If the property will generate income through letting, it is possible to lodge for a consumption tax refund for the non-land component of the purchase. Not all of the consumption tax paid at time of purchase can be claimed; the amount will be determined by the Tax Department.

For individuals who have never lodged a tax return in Japan, the application for this process must be lodged by the 31st of December of the year of purchase. For individuals who *have* previously lodged a tax return in Japan, or if the property is registered in a corporate name, the tax department will determine if the consumption tax can be claimed and when the application must be completed by. In these cases, it is best to apply as soon as possible.

If filing for a consumption tax rebate on the purchase:

- All income generated from the property will be subject to consumption tax for at least two years. At that point, if your total property income is less than Y10,000,000, you can de-registering from consumption tax with the tax department.
- If you sell the property within that period, you will be liable for consumption tax on the non-land portion of the sale price in addition to any capital gains tax liability.

Your property manager can assist in registering the property for consumption tax (includes collating documentation from builder, developer and government authorities), filing a consumption tax refund each year at time of income tax, and filing to de-register the property from consumption tax after three years. The process takes approximately seven months. To date, most applicants have been successful, but we are not able to guarantee every applicant will be approved by the Japanese National Tax Agency.

Income Tax

If the property is income generating through letting, it can be classified as a ‘business’ with income sourced in Japan. Therefore, tax is required to be paid in accordance with Japanese tax law.

Owners are usually registered for a ‘blue’ Japanese income tax return, with the financial year based on the calendar year (Jan-Dec). Blue tax returns allow for the following (per owner):

- business income deductions up to Y650,000;
- carrying losses over to future years to reduce future tax payments;
- increased ability to depreciate fixed assets such as property. Depreciation is calculated at a rate of 2.6% per annum for the building only. Land is not depreciable.

The rate for an *individual* owner is as follows.

Until 2015:

Profit	Tax Rate	Possible Deductions
under Y1,950,000	5%	Y0
Y1,950,000 to Y3,300,000	10%	Y97,500
Y3,300,000 to Y6,950,000	20%	Y427,500
Y6,950,000 to Y9,000,000	23%	Y636,000
Y9,000,000 to Y18,000,000	33%	Y1,536,000
over Y18,000,000	40%	Y2,796,000

From 2016:

Profit	Tax Rate	Possible Deductions
under Y1,950,000	5%	Y0
Y1,950,000 to Y3,300,000	10%	Y97,500
Y3,300,000 to Y6,950,000	20%	Y427,500
Y6,950,000 to Y9,000,000	23%	Y636,000
Y9,000,000 to Y18,000,000	33%	Y1,536,000
Y18,000,000 to Y40,000,000	40%	Y2,796,000
over Y40,000,000	45%	Y4,796,000

Please note there is also a 2.1% special '2011 Earthquake Reconstruction Tax' separate to the above.

Corporate owners:

- There are various taxes applied to corporate owners, and the Tax Department tends to change the rates frequently. A rate of 30% could be used as a rough estimate plus Y70,000.
- Corporate owners have to pay a minimum of Y70,000 tax per annum.
- The tax year for corporate owners depends on the company constitution. If it is not stated in the constitution, it is determined by the country of registration (Jan-Dec for Hong Kong, Jul-Jun for Australia).

Capital Gains Tax

Capital gain is calculated as follows:

- If the property is owned for five years or less, the capital gain is calculated using a short term formula: $\{(sales\ price) - (acquisition\ cost\ and\ expenses\ related\ to\ sales)\} \times 30\% + 2.1\%$ special earthquake recovery tax.
- If the property is owned for more than five years, the capital gain is calculated using a long term formula: $\{(sales\ price) - (acquisition\ cost\ and\ expenses\ related\ to\ sales)\} \times 15\% + 2.1\%$ special earthquake recovery tax.

When calculating 'years' above, the tax department considers the length of ownership until the 1st of January in the year the property is sold. As an example, if the property is purchased on the 1st of June 2014 and sold on the 2nd of June 2019, you have owned the property for more than five calendar years, but capital gains are calculated as 'short term' because the property was owned for less than five years on the 1st of January the year it was sold.

Withholding Tax at Time of Property Sale

For non-residents selling property in Japan, the real estate agent and/or solicitor assisting in the property sale is obliged to withhold 10.21% of the sales income and submit to this to the Japanese Tax Department. An application can be filed to reclaim this withholding tax, the amount being dependent on how much income tax has been paid each year (shown on your tax returns documents) and your final tax return filed after property sale.

Inheritance and Gift Tax

Inheritance and gift tax is levied on the recipient of assets located in Japan attained as inheritance or a gift. The tax rates range from 10% to 50%; however, spousal allowances are available to reduce the tax burden.