

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. To ensure the accuracy, reliability, or current validity of the contents of this information, please consult a registered Japanese tax accountant.

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% (1.5% until March 31, 2015) of land value and 4% of non-residential 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. HTM can register as your tax proxy, and will pay the bill from your account if the account has sufficient funds. This is provided as part of the management service and does not incur extra charges to the owner.

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 standard tax rate is 1.4% of the property value, evaluated by the local council. The tax is similar to local council rates in many western countries. In Kutchan-cho, 0.3% city planning tax is levied in addition to fixed asset tax.

The tax bill is generally issued in May each year, and sent to the property owner directly or their registered tax proxy in Japan. HTM can register as your tax proxy, and will pay the bill from your account if the account has sufficient funds. This is provided as part of the management service and does not incur extra charges to the owner.

Consumption Tax

Japan has a consumption tax system (broadly similar to VAT/GST) with a tax rate of 8% (5% prior to 1 April 2014). A further increase in the rate (to 10%) has been deferred to April 1, 2017.

In general, consumption tax should be charged by enterprises (including both individuals and corporations, domestic and foreign) when making supplies in Japan ("taxable supplies"). Other than those who are exempt from consumption tax by virtue of exception for small medium enterprises, the consumption tax collected on those taxable supplies (i.e. output tax) must be reported and remitted to the tax office by filing a consumption return within two months of the end of the fiscal year. In preparing the return, the enterprise is able to credit some or

all of the JCT suffered on its own purchases (i.e. input tax), such that only the net amount is payable to the tax office. If the input tax suffered on purchases exceeds the output tax collected on supplies, the enterprise can receive a refund (subject to certain restrictions).

HTM can assist you in filing required notices/applications and consumption tax returns upon your request.

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 laws.

Individual owners:

HTM registers individual owners 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;
- the burden of proof is generally placed upon the tax authority to support challenges or adjustments made to a taxpayer's blue tax return; etc.

The National income tax rate for an *individual* owner is as follows.

Until 2014:

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 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
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 Income Tax for Reconstruction separate to the above.

In addition, the local government may levy an Inhabitants tax (5,000 JPY of per capita) and enterprise tax at a rate of 5% checking with the national tax returns filed to the National tax office.

Corporate owners:

HTM registers corporate owners for a 'blue' Japanese income tax return based on the financial year. Blue tax returns allow for the following (per owner):

- carrying losses over to future years to reduce future tax payments;
- the burden of proof is generally placed upon the tax authority to support challenges or adjustments made to a taxpayer's blue tax return; etc.

The National income tax rate for a corporate owner is currently 25.5% (15.0% up to 8,000,000 JPY for certain small/middle entities)

In addition, to the extent that a taxpayer has a permanent establishment (a branch, an office, a rent building, etc.) in Japan, they must file local income tax returns and pay inhabitants tax and enterprise tax. Currently the standard effective tax rate in Japan is roughly 36 to 38%. Please contact your tax accountant in Japan for further details.

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) x 30%] + [(sales price – acquisition cost and expenses related to sales) x 30% x 2.1% special income tax for reconstruction].
- 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) x 15%] + [(sales price – acquisition cost and expenses related to sales) x 15% x 2.1% special income tax for reconstruction].

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 of land 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 55%; however, spousal allowances are available to reduce the tax burden.

Corporate Japanese Income Tax Returns

Prices below are for completion of a 'blue' corporate Japanese tax return. 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).

Blue tax returns allow for:

- 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.

Expenses

Expenses which can be claimed:

- solicitors fees
- travel expenses
- interest/fees for loans from banks outside of Japan
- invoices and/or custom duty documents (including import tax receipts), for items you purchase or import for the property.

Payment Schedule

	First Application	Further Applications
Income tax return (one property)	¥143,000	¥110,000
Income tax return (each additional HTM-managed property)	¥55,000	¥22,000
Income tax return (each additional non HTM-managed property)	¥440,000	¥440,000
Consumption tax return	¥143,000	¥110,000
Capital gains tax	¥110,000	¥110,000

HTM also charges ¥13,200 per property per income tax return (maximum two hours of work), and ¥66,000 per property per initial consumption tax return (maximum ten hours of work). This charge is to liaise between yourself and a Japanese tax accountant. Additional hours are charged at Y6,600 per hour.

All rates include Consumption Tax at the prevailing rate.
Prices are subject to change.

Effective from 1 Oct 2019

Owner Tax Questionnaire for Non Residents

Please copy and complete this form for each person who is/will be registered on the property deed.

** required*

Property & room: *

Given names: * Family name: *

Do you want HTM to register as your Acquisition and Fixed Asset Tax proxy? * Yes No

Do you want HTM to organize a Japanese income tax return for you? * Yes No

Do you want to be registered as a consumption tax payer? * Yes No

(Consumption tax refund is only granted when all the documents are submitted in time and the application is approved by the taxation office.)

If you answered YES to any of the above, please also answer the following questions:

Gender: Male Female Date of birth (DD/MM/YYYY):

Street address:

State/province/region: Postal code: Country:

Nationality:

Is the property owned solely by yourself, or are there other owners? Single Owner Shared

Is the above property's owner an individual or corporation? Individual Corporation

If corporation, what is the name of the company on the deed?

Do you have any other properties in Japan? Yes No

(If yes, please provide details by email, including management company contact information.)

If you answered YES to filing income and/or consumption tax returns, please also answer the following questions:

Is this your first time filing income tax in Japan? Yes No

Occupation:

Do you earn a salary in Japan? Yes No

If the property is owned by a corporation, is that corporation registered in Japan? Yes No

Does that corporation have its main office or a branch in Japan? Main Office Branch

Do you conduct any other business in Japan other than property letting? Yes No

We will need the following documents to file an income or consumption tax return:

Individual owners:

- copy of personal details page of passport
- copy of sales contract
- copy of property title deed
- copy of management and letting agreement

Corporate owners:

- copy of personal details page of passport
- copy of corporate registration
- copy of corporate constitution (must state the company's capital)
- corporate financial year if designated in constitution
- copy of sales contract
- copy of property title deed
- copy of management and letting agreement

We do not need details of tax deductible expenses at this time. We will contact you later and request these at an appropriate time.

Japanese Income Tax Returns - Individuals

Prices are for completion of a 'blue' Japanese tax return, with the financial year based on the calendar year (Jan – Dec).

Blue tax returns allow for:

- business income deductions up to ¥650,000;
- carrying losses over to future years to reduce future tax payments;
- increased ability to depreciate fixed assets such as property.

Expenses

Expenses which may be claimed:

- solicitors fees
- travel expenses
- interest / fees for loans from banks outside of Japan
- invoices and / or custom duty documents (including import tax receipts), for items you purchase or import for the property
- other expenses which you incur in the generation of property rental income

Tax Accountant Fees

	First Application	Further Applications
Income tax return (one property)	¥88,000	¥55,000
Income tax return (each additional HTM-managed property)	¥55,000	¥22,000
Income tax return (each additional non HTM-managed property)	¥330,000	¥330,000
Consumption tax return	¥88,000	¥55,000
Capital gains tax	¥110,000	¥110,000

Where properties are owned by more than one individual, either:

(a) one tax return can be filed with one owner's name for 100% of the income when sharing living expenses (e.g. in the case of marital relationship) or

(b) a tax return can be filed for each owner. Please note the accountant fees are charged per income tax return, not per property.

HTM also charges ¥13,200 per property per income tax return (maximum two hours of work), and ¥66,000 per property per initial consumption tax return (maximum ten hours of work). These charges are to liaise between yourself and a Japanese tax accountant and are additional to the Tax Accountant Fees. Additional hours are charged at ¥6,600 per hour.

All rates include Consumption Tax at the prevailing rate.
Prices are subject to change.

Effective from 1 Oct 2019