



JTAX | JAPAN PAYROLL GUIDE

**YOUR TRUSTED PARTNER
in Japan**

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PART I INTRODUCTION

**“JTAX Understands Your
Requirements...”**



ABOUT JTAX

JTAX is a member of the Accounting Asia Group, a leader in Asia focused professional services.

Tracing its roots to 2001, JTAX's team of Japanese and foreign professionals has assisted hundreds of foreign clients to establish and run their businesses in Japan. Our management is drawn from the Big 4 and has extensive experience responding to the requirements of clients ranging in size from listed multinationals to start-ups.

JTAX recognizes the practical difficulties associated with operating a business in Japan and our aim is to provide clients with one-stop assistance. Our team therefore provides a comprehensive range of services including tax advisory, tax compliance, incorporation, accounting, cash management / expense payment, payroll / HR, Japan resident nominee directors, and work visas. In addition to the convenience of dealing with a single service provider, JTAX ensures that its services are handled in a coordinated manner. For example, Japan work visas may be dependent on having a properly incorporated company and an appropriate tax structure, etc.

In addition to working directly with clients, JTAX is also able to assist foreign law firms and accounting firms whose clients require assistance in Japan.

Please **Contact Us** for more information about any of our services.



JTAX MANAGEMENT

Dean Page – Administrative Partner

Dean Page is JTAX’s administrative partner. He is a leading expert on Japanese and international tax and on doing business in Japan.

Dean worked for seven years in the Big 4, most recently as a partner at Ernst & Young (E&Y). At E&Y he served as the inbound account leader in which role he had responsibility for overseeing the delivery of services to E&Y Japan’s foreign clients.

At PricewaterhouseCoopers (“PwC”) Dean headed the Pathfinder Group, a team that specializes in assisting foreign clients to establish operations in Japan.

Since 2001, Dean has co-headed the International Tax Education Program (ITEP) and acted as an Adjunct Professor at the Beasley School of Law, Temple University, Japan Campus. He is the author of numerous articles related to Japanese and international tax.

Dean is admitted as both an attorney [England / Wales] and as a CPA [USA, California].





JTAX SERVICES

JTAX recognizes the practical difficulties associated with operating a business in Japan and our aim is to provide clients with one-stop assistance. JTAX key services include

- Tax Consulting and Compliance
- Accounting & Bookkeeping
- Bank Account Management & Expense Payment
- Payroll & HR
- Japan Work Visas
- Japan Incorporations
- Japan Nominee Directors
- Japan Registered Address & Virtual Office Solutions
- Due Diligence & Deal Integration Services
- Outsourcing Solutions including Finance, Tax, Accounting, and Payroll & HR.

Please [Contact Us](#) for more information about any of our services.



PART II
**JTAX's JAPAN PAYROLL AND
HR SERVICE**

**“JTAX Understands Your
Requirements...”**

1. Introduction to JTAX'S Japan Payroll & HR Service

The purpose of this brochure is to describe the main elements of Japanese payroll, the key decisions you need to make as an employer, and how JTAX can help you set up and maintain a Japan payroll.

JTAX'S PAYROLL & HR CAPABILITIES

JTAX's key payroll & HR related capabilities include:

- Registration of new employers for Japanese social insurance, labor insurance, and tax withholding purposes.
- Comprehensive monthly payroll including withholding tax (for both local and national tax purposes), social insurance, labor insurance, and year-end payroll adjustment.
- Payment of amounts withheld from payroll to the Japanese authorities on a monthly basis.
- Tax-efficient compensation planning for both Japanese nationals and foreign expats including the tax consequences associated with specific items of compensation (housing, etc.).
- Tax-efficient employment agreements.
- Advice regarding location of payroll (in some cases, payment offshore may be the preferred option.)
- Compensation planning for directors of Japanese companies.
- Preparation of Japanese individual income tax returns for employees (both Japanese nationals and foreign expats).

2. Brief Overview of The Japanese Payroll System

Employees in Japan are usually paid on a monthly basis. Payment on the 25th of each month is traditional but other dates can be used. Typically, deductions are made from an employee's salary for (i) individual income tax (national and local tax); (ii) social insurance (consisting of a statutory retirement contribution, health insurance, and a long-term care premium); and (iii) labor insurance (consisting of workers' accident insurance and unemployment insurance). There are both employee and employer contributions.

Note on Individual Income Tax Returns: With certain exceptions, Japanese employees do not file annual individual income tax returns. This function is generally handled by way of a year-end adjustment of the payroll.

3. First Decisions

Before payroll can be put in place, a number of decisions need to be made by you as the employer.

a. Payday

A date for the monthly payment of salary needs to be decided. Although the 25th of each month is quite common, other dates (such as the last day of the month, and the 20th) are also used by some companies. If in any month the selected payday falls on a weekend / bank holiday, payment is usually made on the day before such holiday.

b. Bonus System

Traditionally, Japanese companies took an employee's annual compensation and divided it by 16. Under this system, employees receive 1/16th of their annual salary each month except in June and December. In June and December, summer and winter bonuses are paid. Thus twice a year, employees receive 3/16^{ths} of their annual salary. **Please note that this so-called "bonus" is separate from the issue of performance bonuses.** However, our recent experience is that most employers simply divide annual

compensation by 12, and pay an equal amount each month. In addition, the employer may have a system of annual performance bonus.

c. Location of Payroll

If your company expects to employ foreign expats, consideration may be given to paying such employees offshore. There may be a number of individual tax benefits to adopting such an approach.

Employees paid offshore may need to submit a Japanese individual income tax return by the 15th of each March with respect to the previous calendar year.

4. Getting Started

Initial Employer Registrations

If the Japan entity is new, the company will need to make a number of filings (a process which JTAX can administer). If the entity has been in existence for some time, some of these filings may have already been made (in which case, we would need a copy of such filings in order to proceed).

The main filings are as follows:

a. Registration for Withholding Tax

This is a notice to the Japanese tax authorities to expect the remittance of withheld funds. Upon registration with the national and local tax offices, your company will be assigned a number for withholding purposes.

b. Registration for Social Insurance

Social insurance consists of health insurance, statutory retirement contribution, and long-term care insurance. Under normal circumstances, both the employer and employee contribute equally to the program.

Note: From a Japanese employee viewpoint, social insurance is a **very** important issue. Most employees expect that social insurance will be handled through the company payroll. However, given it can take up to eight weeks to register a company for social insurance, your employees may be left without coverage during the lengthy application period – a major concern to most Japanese nationals. Options for dealing with this problem are provided below.

c. Registration for Labor Insurance

Labor insurance consists of unemployment insurance and workers' accident insurance. Contributions are made by both the employer and employee.

Companies can usually obtain labor insurance coverage for their employees in a relatively short period of time.

d. Bank Account

If your company does not already have a Japan bank account one should be established as soon as possible.

In most cases, salary payments to employees will be effected via a transfer from the company bank account to the employee's bank account. Payments to the Japanese tax authorities for social insurance and labor insurance are deducted directly from the employer's own bank account.

5. Each Month – Your Japan Payroll In Operation

The following is an overview of how JTAX's full-service payroll would operate on a monthly basis (assuming a payday on the 25th of the month).

10th of the Month – The company provides the current month's payroll information to JTAX. If, employee expenses are to be reimbursed in addition to salary, such details would also need to be provided at this time.

15th of the Month – JTAX sends a breakdown of the current month's payroll and requests a funds transfer to the payroll account.

20th of the Month (at the latest) – Funds are received in the payroll account.

25th of the Month – Funds are remitted directly to each employee's personal bank account and pay-slips are provided to each employee either directly or via the company.

Following Month – JTAX makes arrangements to pay withheld amounts (national tax and local tax) to the Japanese tax authorities. Social insurance is deducted from the company's bank account on the last day of the month.

January Each Year – JTAX prepares the annual withholding report. This report advises the tax authorities of the amounts withheld from employees' salaries (for national tax local tax) during the previous calendar year.

June Each Year – The annual labor insurance report is prepared by JTAX and the annual labor insurance payment is deducted from the company's bank account. This is a prepayment of one year's estimated labor insurance premium.

July Each Year – The annual social insurance report is prepared by JTAX.

December Each Year – JTAX makes the year-end payroll adjustment. This payroll adjustment replaces the need to submit an individual income tax return for most Japanese employees. National tax and local tax paid during the year is reconciled and the employee may receive a refund or additional tax may be deducted.

6. Frequently Asked Questions

The following are some of the most common questions JTAX receives about payroll in Japan.

a. Our Japan entity is new -- how long will it take to establish a payroll?

Once JTAX receives all the required information, it may be possible to establish a basic Japan payroll within a week to 10 days. However, in the case of a new entity, social insurance coverage for employees (health insurance, statutory retirement contribution, and long-term care insurance) may not be available through the company for up to two months. This can be a significant issue for Japanese employees who are accustomed to receiving coverage through their employer. For possible solutions, please see FAQ b. below.

b. Our new company is not registered for Japanese social insurance purposes - what options are available to our employees during the period that our company cannot provide normal coverage via the Japan payroll?

As mentioned above, social insurance registration for a new company may take up to two months. In the interim, two options *may* be available to affected employees:

- (i) Coverage through their former employer. This is sometimes possible for up to two years, but may be a matter of negotiation between your new employee and their former employer.
- (ii) Coverage through the national system for individuals. It may be possible for employees to obtain interim coverage as individuals by way of application to their local ward office. Although the individual would have to bear the full premium, employers can reimburse the employee for the equivalent of the employer portion.

c. How do we handle new employees?

Once the employer has been registered for social insurance and labor insurance JTAX can usually ensure coverage of new employees from the date they begin work.

d. How do we handle employees leaving the company?

In the event an employee resigns, JTAX needs to be advised of the effective date of such resignation and whether any special payments are to be made [e.g., retirement allowance, severance pay, etc.]. The company should also obtain a forwarding address for the ex-employee, in order that JTAX can provide them with a withholding statement.

e. What payroll related reporting is required to the Japanese authorities?

As an employer, you will have payroll related reporting obligations to a number of Japanese government authorities. JTAX can handle all such reporting requirements on your behalf.

The main reporting requirements are as follows.

- **Annual Withholding Tax Report**

This is a summary of how much tax has been withheld from salaries during the last year. A report is filed with both the national and local tax authorities each January with respect to the previous calendar year.

- **Annual Social Insurance Report**

This report is filed with the Japanese social insurance authorities in July of each year.

- **Annual Labor Insurance Report**

This report is filed with the Japanese labor insurance authorities in May of each year.

f. **What payroll related reporting is required to our employees?**

As an employer, you are required to provide employees with a certificate indicating the tax withheld during the last year. This document is generally provided to employees in December of each year.

7. Payroll Related Consulting

In addition to providing a full payroll service, JTAX is able to provide advice in a number of payroll and HR related areas, including:

- Tax-efficient compensation of employees in Japan (both Japanese nationals and foreign expats).
- Tax-efficient employment agreements, work rules, etc. (Legal matters are handled by our team of associated Japanese lawyers.)
- Location of payroll – in some cases, payment off-shore may be the preferred option.
- Tax issues (both individual and corporate) concerning the compensation of directors.
- Tax consequences associated with specific items of compensation, including company housing.
- Preparation of Japanese individual income tax returns for employees (both Japanese nationals and foreign expats).

Please **Contact Us** for more information about any of our services.

JTAX

JAPAN TAX GROUP

To learn more about how JTAX can help your company succeed in Japan, please contact one of our Japan-based professionals.

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