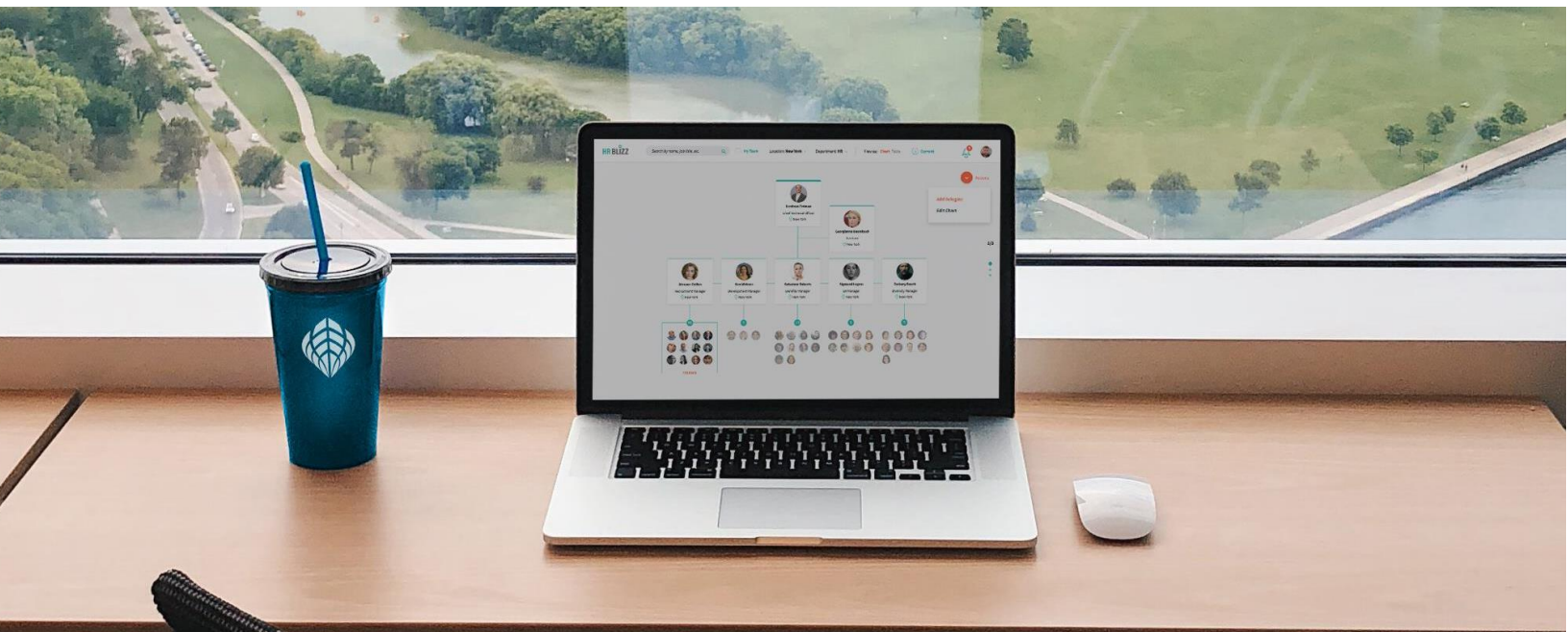




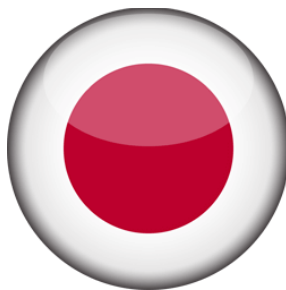
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Tasks Worldwide

Payroll & Tax Highlights

2020 Global Payroll Country Guide for Japan



JAPAN



May 13, 2020



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Japan – facing economic slowdown.

Japan is the third largest national economy in the world, after the United States and China, in terms of nominal GDP, and the fourth largest national economy in the world, after the United States, China and India, in terms of purchasing power parity. As of 2016, Japan's public debt was estimated at more than 230 percent of its annual gross domestic product, the largest of any nation in the world. The service sector accounts for three quarters of the gross domestic product.

As of 2016, Japan's labor force consisted of some 65.9 million workers. Japan has a low unemployment rate of around four percent. Some 20 million people, around 17 percent of the population, were below the poverty line in 2007. Housing in Japan is characterized by limited land supply in urban areas.

Japan's exports amounted to US\$4,210 per capita in 2005. As of 2014, Japan's main export markets were the United States (20.2 percent), China (17.5 percent), South Korea (7.1 percent), Hong Kong (5.6 percent) and Thailand (4.5 percent). Its main exports are transportation equipment, motor vehicles, iron and steel products, semiconductors and auto parts.

Even before the coronavirus started to disrupt Japanese manufacturing supply chains, Japan's economy had faltered following the imposition of a higher national sales tax in October 2019. Specifically, the government reported that, in the fourth quarter of 2019, real GDP fell at an annualized rate of 6.3 percent from the previous quarter.

Japan's parliament passed labor market legislation designed to set a legal cap on overtime work, ensure equal treatment for regular and nonregular workers, and exempt skilled professional workers from working-hour regulations, but the effectiveness of the new laws will hinge on implementation. Efforts to bring more workers into the labor force are meeting with success, with women, older workers, and inflows of foreign labor contributing to the gains. Corporate governance reforms have advanced, and the trade agenda has accelerated with two new trade agreements.

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Doing Business in Japan

Japan is an island country located off the eastern coast of Asia. It is bordered by the Sea of Japan to the west and the Pacific Ocean to the east, and extends more than 3,000 kilometers (1,900 miles) from the Sea of Okhotsk in the northeast to the East China Sea and Philippine Sea in the southwest. Part of the Pacific Ring of Fire, Japan encompasses an archipelago of 6,852 islands; five main islands (Hokkaido, Honshu, Kyushu, Shikoku, and Okinawa) comprise 96% of the country's total area of 377,975 square kilometers (145,937 sq mi).

Japan is officially divided into 47 prefectures and traditionally into eight regions. About three-fourths of the country's terrain is covered with mountains, with much of the remainder made up by flat coastal plains. As a result, Japan is one of the most densely populated and urbanized countries in the world. The largest urban area is the Greater Tokyo Area centered on the capital city of Tokyo, which is the most populous metropolitan area in the world and home to more than 38 million people. Japan is the eleventh most populous country in the world with a population of 126.2 million, of which 97.8% are ethnically Japanese.

Japan benefits from a strong rule of law and independent judiciary. Commercial law is applied consistently, with no evidence of bias against foreign companies. Challenges include Japan's high tax rate compared with its regional neighbors, insular commercial business culture, linguistic and cultural barriers, as well as heavy government regulation in various sectors. Japan faces the structural problem of a rapidly ageing population, which puts pressure on government finances and limits the size of its workforce.

Basic Facts

Official State Name	Japan
Population	126.1 million
Capital	Tokyo
Major Languages	Japanese
Currency	Japanese yen (¥) (JPY)
Main Industries & Export Articles	Motor vehicles, machine tools, steel and nonferrous metals, ships, chemical substances, textiles, and processed foods.
GDP Growth	0.7%
Internet Domain	.jp
International Dialing Code	+81
Dates & Numbers	yyyy-mm-dd. A full stop (period) is used for the decimal comma, and long numbers are written with a point (999,999,999.00)

Entity Registration & Incorporation Requirements

Japan has the following three entity types for foreign investors to conduct business in Japan:

1. a representative office
2. a branch office
3. corporate entity

Representative Office

A representative office is essentially a liaison office. A foreign company may establish a representative office in Japan with no special requirements. In principle, no notification or registration form needs to be submitted to a government office. It can only perform market surveys and business, collect information, purchase goods and implement publicity/advertising efforts, but they are not permitted to engage in sales activities. Therefore, foreign companies wishing to engage in continuous transactions in Japan must register in the country as a branch office or a corporate entity.

Branch Office

The simplest means for a foreign company to establish a base for business operations in Japan is to set up a branch office. The branch office can begin business operations as soon as an office location is secured, the branch office representative residing in Japan determined, and the necessary information registered. A Japanese branch office is a business location that provides services in Japan decided upon by an organization authorized by the foreign company, therefore, the foreign company is ultimately responsible for all debts and credits generated by the activities of its Japanese branch office.

Corporate Entity

A foreign company establishing a subsidiary company in Japan must choose to establish the subsidiary company as (A) a joint-stock corporation (Kabushiki Kaisha, KK) or (B) a limited liability company (Godo Kaisha, GK). Both types of subsidiary companies can be established by completing the required procedures stipulated by law and then registering the corporation. A subsidiary is a separate corporation from the foreign company, so the foreign company will bear the liability of an equity participant stipulated by law for all debts and credits generated by the activities of the subsidiary.

- A KK is the most widely-known and common form of corporate entity, and Kks account for more than 90% of Japanese corporate entities.
- A GK is a new type of corporate entity that has emerged with the enforcement of the Companies Act 2006. It is a system that allows a company to be established easily, quickly and inexpensively, but GKs are sometimes seen as inferior to Kks in name recognition and reliability.

The various considerations related KK and GK have been summarized below:

Consideration	Kabushiki Kaisha (KK)	Godo Kaisha (GK)
Structure	Limited liability company by share	Used by small and medium sized companies and functions more like a partnership
Credibility	Widely known, the most credible form of company in Japan	Newly introduced in 2006 to replace Yugen Kaisha. Still not very well known
Governance	Investors / owners (shareholders) and managers of the company (Directors) are separated (a shareholder can become a director at the same time)	Owned and managed by partners. Necessary to invest (regardless of the amount) in order to manage the company.
Minimum number of people required	At least one shareholder and one Representative Director (can be the same person)	At least one partner
Publication of financial statements	Necessary	Not necessary
Directors term of office	1 to 10 years with possibility of re-election (which needs to be registered)	No fixed term
Profit sharing	Tied to the investment rate (number of shares held)	Possible to decide freely without being bound to the investment rates

Standard legal entity incorporation steps in Japan have been summarized below:

No.	Procedures	Time To Complete
1	Company Name Reservation Agency : Legal Affairs Bureau of the Ministry of Justice	1 day



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No.	Procedures	Time To Complete
	<p>Under the Japanese Company Laws, entrepreneurs may not file an application for incorporating a company if the same company name and head office address are already registered. There is no need for entrepreneurs to check the uniqueness of the company name and make the name reservation at the Legal Affairs Bureau of the Ministry of Justice. Entrepreneurs usually check if the proposed company name and head office address has been registered. This can be easily be checked through books or personal computers installed and offered for searching at the Legal Affairs Bureaus or online at http://www1.touki.or.jp/gateway.html.</p>	
2	Make a company seal Agency : Seal Maker A company seal is required by law: Article 20 of the Commercial Registration Act. The associated fee is JPY 10,000 for machine-carved seal or JPY 20,000 for hand-carved seal. The company seal must be registered at the Legal Affairs Bureau at the time of the incorporation under the Commercial Registration Act. An entrepreneur usually files the registration of the company seal as well as the registration of incorporation of the company with the competent Legal Affairs Bureau.	3 days
3	Register the company at the Legal Affairs Bureau of the Ministry of Justice Agency : Legal Affairs Bureau of the Ministry of Justice To apply for registration, the entrepreneur must submit supporting documents with the application to the Legal Affairs Bureau headquarter or any of its branch offices designated in major cities, including: <ul style="list-style-type: none">• Articles of incorporation (signed by 5 entrepreneurs who contributed capital)• Application of seal registration• Letter of proxy (if company is registered by a lawyer or a judicial scrivener)• Personal seal of the executive member• Proof of paid-in capital (bank statement or letter from the company's representative certifying the receiving of capital contributions)• Proof of address• Confirmation of appointment of the company representative• Confirmation from company representative that he agrees to the appointment. Additionally, the company's seal must be registered at the Legal Affairs Bureau of the Ministry of Justice upon registration of the company. The Certificate of corporation seal registration costs Yen 450. Once the filed documents are reviewed and approved, the company applies for the issuance of a company registration certificate. Normally, a judicial scrivener completes this registration procedure on behalf of the company.	3 days



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No.	Procedures	Time To Complete
	By virtue of the amended Commercial Registration Regulations in force since June 2004, company registration applications can be submitted online. To do so, the user must first obtain an electronic signature or a digital certification. There are two types of digital certifications: data file and IC card. The user must purchase an IC card reader to use the IC card system.	
4	File the notification of company incorporation and the opening of a payroll office and apply for the approval of blue tax returns Agency : National Tax Agency A notification of the company incorporation must be filed to the Tax Agency (District Tax Office) within 2 months of the incorporation date. The notification of opening a payroll office must be filed within one month of the opening of a payroll office. As of January 2016, 13-digit "corporation identification numbers" (houjin bangou) must be indicated on (a) the notification of company incorporation, (b) notification of the opening of a payroll office and (c) application for the approval of blue tax returns. The application for the approval of blue tax returns must be filed either within 3 months of the incorporation date, or a day prior to the end of the first fiscal year, whichever comes first. Applicants can submit their application either online or in person.	1 day
5	File the notification of commencement of business at the local tax office Agency: Local tax department of Tokyo Metropolitan Government A notification of commencement of business must be provided to the relevant authorities. If the head office of the company is located within Tokyo's 23 wards, the company must file a Notification for the Commencement of Business at the tax office of the Tokyo Metropolitan Government within 15 days of company incorporation. If the head office of the company is located outside Tokyo's 23 wards, the company must file a Notification of Incorporation at the tax office of the municipal government and the tax office of the prefectural government within 1 month of company incorporation.	1 day
6	File the labor insurance notifications and employment rules Agency: Labor Standards Inspection Office Employees are automatically provided with labor insurance as soon as they are hired. Labor insurance usually includes employment and worker's compensation insurance.	1 day



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No.	Procedures	Time To Complete
	<p>Upon recruitment, the company must file without delay the following documents at the competent Labor Standards Inspection Office:</p> <ul style="list-style-type: none">• Notification of the application for labor insurance within 10 days of the insurance coverage commencement date• Notification of the approximate insurance contributions within 50 days of the insurance coverage commencement date• The rules of employment (once the company hires 10 or more employees)• Certificate of Registered Matters (Certificate of Company Registration)	
7	File the applications for health insurance and public welfare pension	1 day
	<p>Agency: Japan Pension Service</p> <p>As soon as the company and its employees are covered for health insurance and public welfare pension, the company must file the following documents at the Social Insurance Office within 5 days of the business insurance coverage commencement date:</p> <ul style="list-style-type: none">• Notification of the acquisition of insured status• The insurance details covering Health and Employee Pension insurance• Certificate of Registered Matters (Certificate of Company Registration)	
8	File the company application for employment insurance	1 day
	<p>Agency: Public Employment Security Office</p> <p>The notification of the company's application for employment insurance must be filed at the Public Employment Security Office within 10 days of commencement of employment by the company.</p> <p>When a new employee is recruited, he/she is automatically insured under the company's employment insurance. The company must thus file a "Notification of Acquisition of Insured Status under Employment Insurance" at the Public Employment Security Office by the 10th day of the month immediately consecutive to that of the employee's appointment date.</p>	

Banking

Banks in Japan operate similarly to banks in other countries. There are a variety of institutions, ranging from large international banks to smaller regional ones. The large domestic banks include Japan Post, Mizuho, Mitsubishi UFJ Bank, Mitsui Sumitomo and Resona. Furthermore, several online banks, most notably Seven Bank, have recently gained popularity and offer their customers banking via the internet and a network of ATMs.



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Banks provide their customers with services such as cash deposits, withdrawals, transfers, foreign exchange and investment services. Most banks are open from 9:00 to 15:00, and close on weekends and national holidays. ATMs tend to have longer operating hours and tend to be available on weekends and holidays. An increasing number of ATMs are available 24 hours.

Both foreign residents and travelers can open a bank account as long as they hold a residence card. Some banks may also accept a Japanese driver's license in lieu of a residence card. More conservative banks may also require a personal stamp (inkan).

Most banks do not require a minimum deposit to open an account and do not charge a fee to maintain it. Interest rates on regular accounts are very low, often fractions of a percent. Once you have applied, your bank book and ATM card will be sent via mail. Conversely, you can close your account in person at any branch with your cash card, bank book, residence card and personal stamp (if required).

Electronic bank transfers (furikomi) are one of the key services offered by Japanese banks. They are a very common way for individuals and businesses to transfer money between each other and to pay bills. Transfers can be made at the teller, ATM or via the internet, and are processed on the same day if made within business hours. A fee of typically 100 to 600 yen is paid by the sender.

It is also possible to transfer money from an account outside of Japan to a Japanese account via international wire transfer; however, it can be a somewhat complicated process that usually costs several thousand yen in handling fees.

Salary payments can be made either in cash or through bank transfers. While salary payments can technically be made outside Japan, social insurance premiums, corporate and personal income taxes can only be made from a local bank account in Japan.

Working Week

Since 1987, Japan has adopted the principle of a 40-hour week. If people work over eight hours per day, 40 hours per week, or on holidays (and one "weekend" day a week), or at late night (10pm to 5am), they are entitled to overtime pay. Under the Labor Standards Act of 1947 article 37, this is 25% of pay, or 35% on holidays. Since 2010, a rate of 50% overtime pay applies for people working over 60 hours a week. Also, collective agreements may extend the normal work week.

If an employee works six to eight hours in a day, they are entitled to a 45-minute break. If an employee works eight hours in a day, they are entitled to a one-hour break.

Overtime

Any employer that requires workers to work in excess of statutory working hours or on statutory days off must submit a Notification of Agreement on Overtime and Work on Days off to the chief of the relevant labor standards inspection office. If employers force employees to do overtime work or work on days off without submitting a Notification of Agreement on Overtime and Work on Days off, they may be penalized.

Even if employers submit a Notification of Agreement on Overtime and Work on Days off, there are limitations for overtime work and work on days off as follows.



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Period	1 week	2 weeks	4 weeks	1 month	2 months	3 months	1 year
Limit	15 hours	27 hours	43 hours	45 hours	81 hours	120 hours	360 hours

However, the extension of working hours to a certain amount of hours beyond the limitations can be included in the Agreement through the appropriate labor-management procedures on a certain period only if there are exceptional circumstances for the extension of working hours beyond the set limitations above.

Companies must pay an increased rate of wages as set forth in the table below to employees who work in excess of statutory working hours, work on statutory days off or work late at night (between 22 : 00 and 05 : 00).

Overtime Type	Overtime Premium
Work in excess of statutory working hours	25%
Work in excess of statutory working hours exceeding 60 hours in a month*	50%
Work on statutory days off	35%
Work late at night (between 10 p.m. and 5 a.m.)	25%
Work late at night in excess of statutory working hours	50%
Work late at night in excess of statutory working hours exceeding 60 hours in a month*	75%
Work late at night on statutory days off	60%

*These overtime rates do not apply to small and medium-sized enterprises for the time being. Employers are allowed to offer paid leave in lieu of additional wages for overtime work if agreed upon in a labor-management agreement.

Recording Working Hours

Working hours refers to the time that is placed under the command of the employers, and the time the worker engages in the work by the employer's explicit or implied instruction corresponds to working hours. The Labor Standards Act contains provisions on working hours, holidays, nighttime overtime work, and other working conditions. Employers are therefore under an obligation to properly ascertain and control working hours. Regarding the calculation of working hours, in principle, it is necessary to record time in an objective manner such as through time cards and use of time on personal computers. Even in the case that workers submit their working hours, it is necessary to have measures to confirm that the declared time is accurate.

Managers & Supervisors

Persons in positions of management or supervision and persons handling confidential administrative work who are closely involved in management are not subject to the regulations on working hours, breaks and days off (with the exception of regulations on night work). Whether he or she is regarded as a manager/supervisor is comprehensively judged by facts such as those below;

- whether the decision-making process of his or her labor conditions and labor management are closely involved in management



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- whether he or she is given the practical authority and business status of a manager/supervisor, regardless of his/her business title
- whether there is a strict limitation for working hours, such as office hours
- whether he or she is given the appropriate financial treatment of a manager/supervisor, such as salary, allowance and bonus

Modified Working Hours System

Some jobs entail large peaks and troughs in the number of working hours according to the year, month or week. In some of these cases, companies are allowed to adopt a system of calculating working hours whereby the company need not pay increased rates in certain weeks or on certain days even where employees work in excess of statutory working hours, provided that the employees involved work no more than the statutory number of working hours on average within a predetermined period. In this case, however, a labor-management agreement must be entered into or appropriate provisions included in work rules before a flexible system can be adopted.

System of annual modified working hours

Employees' working hours must not exceed 40 hours on average per week for a specified period of more than one month but not more than one year. If a company adopts this system, even workers whose statutory working hours are 44 hours per week, under the exemptions detailed in 4.5.1 1., are subject to the aforementioned 40-hour average.

System of monthly modified working hours

Provided that provisions are drawn up prohibiting employees' working hours from exceeding 40 hours*1 on average per week for a specified period of not more than one month, the employer may have employees work in excess of 40 hours in a specified week or in excess of eight hours on a specified day.

Flextime system

Another system under which working hours can be adjusted within a monthly period is the flextime system. Under this, the total number of working hours that a worker must work during a fixed period of not more than one month is established, and workers are free within limits to determine what time they start and stop work each day provided that they meet the total number of working hours required.

Week-based modified working hours

Under this system, employers may have employees work for more than eight hours but not more than 10 hours per day, provided that employees' working hours do not exceed 40 hours per week. It should be noted, however, that this system is limited to retailers, inns and restaurants with less than 30 regular employees. Furthermore, if a company adopts the system, even workers whose statutory working hours are 44 hours per week, under the exemptions detailed in 4.5.1 1., are subject to the aforementioned 40-hour average.

*1 Under this system, the working hours of workers whose statutory working hours are 44 hours per week under the exemptions detailed in 4.5.1 1. shall remain 44 hours.

System of Discretionary Working Hours

If employees work outside companies or if the progress of work is considerably left to employees, an ordinary method of calculating working hours may be unsuitable. For such case, there is a "deemed working



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hour system" under which employees are deemed to have worked for a certain period of time. If the deemed working hours exceed statutory working hours, increased rates of wages will occur for the excess hours.

System of deemed working hours outside the workplace

This system is to deem that employees have worked for prescribed working hours where it is difficult to calculate the employees' working hours because the employees work outside the workplace for sales, media coverage or other reasons. However, in general, if the employees need to work in excess of the prescribed working hours in order to provide the services, it will be deemed that the employees have worked for "hours generally required to perform those services" or "hours prescribed in the labor-management agreement."

Discretionary working system for professional services

For certain services that are highly professional and difficult to provide specific instructions pertaining to the means of performing services and the allocation of time, by prescribing working hours in the labor-management agreement and submitting that agreement to the chief of the relevant labour standards inspection office, it will be deemed that the employees worked for the hours prescribed in the agreement regardless of the actual working hours.

Discretionary working system for planning services

For a person who engages in services such as planning, plan proposal, research and analysis in which the method of performing those services must be left to the employee's discretion to a large extent, if certain matters are resolved with the majority votes of four-fifth or more of the committee members at the labor-management committee, and the matter is registered to Labor Standards Inspection Office, it will be deemed that the person worked for the hours resolved at the labor-management committee regardless of the actual working hours.



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Labour Law

Japan has a number of laws pertaining to labor and the protection of workers. These include: the Labor Standards Act which sets forth the minimum standards on working conditions; the Industrial Safety and Health Act which aims to ensure the safety and health of workers at the workplace; and the Minimum Wage Act. These laws apply in principle to all enterprises in Japan, regardless of whether the employer is Japanese or foreign, or the company is a foreign or Japanese-registered corporation. They also apply to foreign workers in Japan provided that the foreign workers meet the definition of workers under these laws.

Recruitment

As far as labor contracts are concerned, the principle of freedom of contract applies to the hiring of workers, and allows an employer to decide what kinds of workers and how many to hire. There are, however, some restrictions. For instance, under the Equal Employment Opportunities Act, employers must afford equal opportunities regardless of sex when recruiting and hiring workers. For that reason, employers may not specify male or female employees when advertising situations vacant, with the exception of a few specific positions.

Under the Employment Measures Act, employers must also afford equal opportunities regardless of the age when recruiting and hiring workers, and employers are, with some exceptions, prohibited from specifying the age limit in their recruitment and hiring.

Selection criteria should be based on whether the applicant has the aptitude and ability necessary for performing the job in question. Personal matters unrelated to aptitude and ability (such as an applicant's nationality, family, personal beliefs and other matters) should not be used as application conditions or hiring standards.

Working Conditions

Companies must indicate the working conditions when recruiting workers through newspapers, magazines or the internet or when posting jobs. At that time, the companies must indicate the following conditions in writing .

- Job description
- The period of the agreement (or where there are no provisions pertaining to period, the fact that there are no provisions pertaining to term).
- Workplace
- Matters pertaining to start and finish times, work in excess of regular working hours, breaks, days off and leaves.
- Wages
- Matter pertaining to an employee's health insurance, an employee's pension, Industrial accident compensation insurance and Employment insurance

If the working conditions of the labor contract are different from the conditions indicated in the initial job-offering, the employer must indicate the difference. The difference should be indicated by a document through which a jobseeker can compare the difference, or by highlighting or underlining the changes in working conditions made in the document when concluding a labor contract. Also, the following working conditions must be indicated in writing:



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- Probation period
- Name of the person that offered the job
- If the employer recruits employees for worker dispatching undertakings, the fact that the employer does so

Employment Agreements

Conditions

When hiring workers, companies enter into labor contracts with each worker. At that time, the employer must notify the employees in writing of the following employment conditions.

- The term of the agreement (or where there are no provisions pertaining to term, the fact that there are no provisions pertaining to term).
- The workplace, and the duties that the employee will have to perform.
- Matters pertaining to start and finish times, work in excess of regular working hours, breaks, days off and leaves.
- Methods of determining, calculating and paying wages; the wage calculation period and payment times.
- Matters pertaining to resignation and dismissal (including all grounds for dismissal).

In the case of part-time workers, the employer must in addition specify in writing whether they will be eligible for pay increases, retirement allowances, and/or bonuses.

Any part of a labor contract that does not meet the standards laid down by law is invalid. For example, a contract containing provisions such as "the company may dismiss the worker at any time for any reason," "the basic wage shall include all overtime pay," and "social insurance fees shall be borne entirely by the worker" (in the case of a business establishment covered by social insurance) is invalid insofar as these provisions are concerned.

It is also illegal to impose a penalty for non-fulfillment of a labor contract. For example, it is illegal to include a clause such as the following: "If a worker retires within two years of joining the company, he/she must pay to the company the sum of 500,000 yen." However, this does not preclude an employer from claiming damages from a worker for losses actually incurred.

Term

Labor contracts generally do not stipulate a term. Where a term is specified, however, it must be no longer than three years except in a few special cases. A fixed-term Labor contract, which exceeded five years in total by updates, can be converted to a Labor contract without a definite period upon the employee's request.

Probation

Employers are allowed to set a limited period of probation prior to fully employing somebody, so as to see whether or not the probationary employee is able and suitable for the job. However, it should be noted that



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if the employer decides not to fully employ somebody during or after the probation period, this refusal to employ is treated in the same manner as dismissal of an employee; in order for such a refusal to be legally allowed, valid reasons for refusal (which were not evident at the time of probationary employment) must have come to light during the period of probation, and it must be objectively reasonable for the employer to refuse to fully employ that person for the aforementioned valid reasons

Assignments

Japanese companies frequently redeploy their workers through internal re-assignment and external assignment, and such redeployments may often require a worker to relocate. Generally, employers have considerable discretion when it comes to changing a worker's duties or temporarily assigning him or her to another company if this is reasonably necessary to business. However, it is necessary to follow the Employment Security Act when companies order their employees temporary external assignment.

If a worker employed by one person engages in work for another person under the instruction of the latter, while maintaining the worker's employment relationship with the former, the former will be deemed to be engaged in "worker dispatching". To engage in worker dispatching, a company must receive a license.

Changes

Working conditions such as wages, working hours, etc. may be changed by agreement between the company and the worker. Although the company may not change the working conditions in principle in a manner disadvantageous to the worker by changing the rules of employment, if the change to the rules of employment is reasonable in light of the extent of the disadvantage to be incurred by the worker, the need for changing the working conditions, the appropriateness of the contents of the changed rules of employment, the status of negotiations with a labor union or the like, or any other circumstances pertaining to the change to the rules of employment, the working conditions that constitute the contents of a labor content shall be in accordance with such changed rules of employment.

Governing Law

In the case of international contracts, which country's law to use as the governing law may be determined by agreement between the parties, and labor contracts are no exception. However, legislation that is clearly intended to protect workers as a matter of policy, such as the Labor Standards Act, will be compulsorily enforced in the forum state regardless of any such agreement. Even if a worker agrees to the law of a region other than that in which labor services are provided being used as the governing law for a labor contract, he/she may claim the benefit of specific forcible provisions ("relative mandatory law") in the region in which labor services are provided by indicating to the employer that he/she wishes that such provisions should be applied. If a labor contract does not stipulate the governing law, it is assumed to be the law of the region in which labor services are provided.

Good Conduct Guarantee

When hiring a worker, a company may require that a guarantee of good conduct be provided by a relative of the worker or similar guarantor, and such a guarantee is held to be legally valid. The term of this guarantee is deemed to be three years if not specified, and up to a maximum of five years where a term is specified.

Directors



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The contractual relationship between a company and directors, etc. is, as a rule, considered to take the form of an engagement agreement as opposed to a labor contract. Accordingly, the relationship is, as a rule, subject to the Companies Act rather than labor law. If a director, etc. does not have the right to represent a company and is employed in a manner very similar to that of a worker, he/she may be simultaneously subject to labor law as a dual worker/director, etc.

Health & Safety

When hiring a regular employee, employers must have the new employee undergo a predetermined health check-up before hiring the employee.

The employer must appoint a Health Officer when the workplace regularly employs 50 workers or more, and have said health officer take charge of technical matters related to health.

The workplaces regularly employing 50 workers or more, the employers must have appoint an industrial physician from among medical doctors, and have the said person provide health care for workers and carry out other matters. For workplaces regularly employing 50 workers or more, the employer shall provide a regularly employed worker with a stress check and interview instruction based on the results annually.

The employer shall, when a new worker is employed, educate said worker on safety and/or sanitation concerning work operations in which the worker is to be engaged.

The employer shall, when employing a worker as a regular employee, provide the employee with a predetermined medical examination. The employer shall provide a regularly employed worker with a medical examination by a physician annually (biannually in the case of night shifts and specific types of work that might cause health problems, such as being exposed to X-rays).

The employer shall, when a worker is killed or suspended from work due to an industrial accident or injury, submit a report to the chief of the competent labor standards inspection office.

Termination and Resignation

If an employee with a fixed term agreement wishes to resign (i.e., the employee wishes to terminate the labor contract by notifying the employer of his/her intention to do so), the employee can do so by providing two weeks' notice. Furthermore, there have been judgements made in courts that company rules stipulating that employees must give more than two weeks' notice are invalid when the rules stipulate an unreasonable notice period.

If an employee with a fixed term agreement wishes to resign, the employee may resign by notifying his/her employer at any time as long as at least one year has elapsed since the date of the start of the contract term. Even in cases where the parties have specified the terms of employment, either party may immediately cancel the contract if there are unavoidable reasons.

On the other hand, employers can only dismiss an employee (i.e., the employer terminates the labor contract by notifying the employee of its intention to do so) after satisfying several criteria. The burden of proof is on the employer in the case of a dispute.



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Grounds for Dismissal

An employer is only allowed to dismiss an employee if there are objectively reasonable grounds for dismissal, and dismissal is deemed to be appropriate in light of socially accepted ideas. Furthermore, all possible grounds for dismissal must be clearly stated in the work rules if the dismissal of an employee is to be valid. In Japan, moreover, termination of a labor contract by the payment of a certain amount of money is not recognized as a matter of course by law (except where an amicable settlement is reached between the parties concerned). As it is exceedingly difficult to judge the validity of dismissal in concrete cases, it is recommended that employers first obtain the advice of a specialist in labor law (such as an attorney or labor and social security attorney).

There is considerable precedent in case law to the effect that it is necessary to meet the following four criteria when making employees redundant as part of company restructuring (i.e., dismissal of employees in order to reduce staff numbers as a result of deteriorating business performance) in order for the redundancies to be deemed reasonable.

Necessity

The company must prove that its business circumstances are such that redundancies are unavoidable and necessary.

Effort to avoid redundancy

The company must prove that it has made serious managerial efforts to avoid redundancies such as by re-assigning staff and advertising for voluntary redundancies.

Reasonable selection

The company must prove that the standards by which it selected those to be made redundant are reasonable, and that redundancies were carried out fairly.

Reasonable process

The company must prove that it conducted sufficient consultations with workers and labor unions.

In order to help preserve jobs in situations where employees would otherwise have to be made redundant as part of company restructuring, there exists a system of "Employment Adjustment Subsidy," which is paid by the government to companies that temporarily lay off employees instead of making them redundant. The subsidy covers two thirds (one half in the case of large enterprises) of the cost of allowances paid for temporary layoffs, subject to the maximum amount of money.

Other Considerations

Employers cannot dismiss employees in the following situations, and are subject to penalties for infringement.



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- While an employee is on leave from work as a result of illness or injury incurred in the course of work, or for 30 days following the completion of such leave.
- While an employee is on maternity leave of six weeks prior to (14 weeks in the case of multiple pregnancy) and eight weeks after the childbirth, or for 30 days following the completion of such leave.

The following cases of dismissal do not have legal effect:

- Dismissal of a female worker during pregnancy or within one year of giving birth.
- Dismissal due to a worker's having reported an illegal act committed by his/her employer to the relevant authorities.

If an employer wishes to dismiss an employee, the employer must give the employee at least 30 days' notice. If the employer wishes to dismiss the employee summarily and without notice, the employer must pay the employee 30 days' wages at the time of dismissal (this payment of wages in rule of notice is known as a "notice allowance"). However, in the situations described below, employers may dismiss employees without notice and without paying a notice allowance so long as the employer obtains the approval of the head of the chief of the relevant labor standards inspection office.

- The company is unable to continue its business as a result of natural disaster or other such unavoidable circumstances.
- The dismissal of the employee is unavoidable and the result of causes attributable to the employee.
 - An employee commits an act in the workplace that constitutes a crime under the Penal Code, including theft, embezzlement or causing injury.
 - An employee breaches the rules or expected standards of behavior of the workplace, or exerts a negative influence on any other worker.
 - An employee makes a false statement in his/her resume that is likely to be a factor in the decision to hire him/her.
 - An employee is absent without leave and without due cause for a period of (generally) two weeks or more, and fails to respond to orders to report for work.
 - An employee is repeatedly late for work, leaves work early or is absent without leave, and fails to improve his/her punctuality despite repeated warnings.

In Japan, there are some methods apart from taking legal steps when an employer wishes to dismiss a worker for some reason. In practice, the employer will explain to the worker the business or job situation in order to persuade him or her to resign, and ultimately the worker will be persuaded, in many cases, to resign voluntarily. However, excessive retirement recommendation may be interpreted as dismissal. It is also common for various conditions to be discussed (such as the topping up of a worker's severance pay) to encourage a worker to agree to resign. However, there are judgements of courts that if persuasion goes beyond the limits of allowance and make it difficult for the worker to make free decision of leaving the company, it goes against the law.

Tax & Social Security



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Overview

Corporations engaged in economic activities in Japan are subject to taxes in Japan on the profits generated by those economic activities.

Income of corporations established in Japan is, as a rule and with the exception of certain non-taxable and tax-exempt income, subject to taxation, regardless of where it was generated (i.e., the source country of income), but when that income includes profits earned in foreign countries that are taxed in the source countries of that income, foreign tax credits are available whereby taxes paid in a foreign country may be credited within certain bounds against Japanese taxes owed for the purpose of eliminating double taxation between the source country of income and Japan.

Corporate Income Tax

A domestic corporation in Japan is taxed on its worldwide income, including foreign branch income, while 95% of dividends received by a company from a foreign company in which it has held at least 25% (or could be lower under relevant tax treaties) of the outstanding shares for a continuous period of six months or more can be excluded from the company's taxable income.

A foreign corporation is taxed only on its Japan-source income. A foreign corporation with a permanent establishment (PE) in Japan is liable for corporate income taxes only on the income attributable to the PE.

Taxable Income

Employment Income

Salary, bonuses, stock or share-based income, foreign-service premiums, cost-of-living allowances, tax reimbursements, and other benefits in kind (except for certain tax-exempt items) are classified as taxable remuneration (employment income). Japan-source employment income is remuneration earned for services rendered in Japan, regardless of where or when the remuneration is paid.

Reasonable relocation expenses, including expenses for a spouse and children, that are borne by the employer do not constitute taxable income. A reasonable amount of airfare for home leave, including airfare for family members travelling together with the employee, is generally not taxable.

Where an employer provides housing, the amount of the taxable benefit is determined based on a formula, and, provided the housing arrangements are structured properly, generally, only a percentage of the rent paid is treated as taxable.

In the case of housing provided for a director (a board member) of a domestic or foreign company, the taxable value would generally be 50% (35% if it can be substantiated that the house is also used for business purposes by the employer) of the actual rent. However, if the housing provided by the company is considered unnecessarily luxurious, the market rent may be deemed to be the taxable value.

Retirement or severance income is treated preferentially under the current Japan tax law. However, retirement payments that are approved by a company's shareholders and are to be made to a director of the company are only eligible for preferential tax treatment if the individual has served as a director for a period of more than five years. This five-year service period must have been with the same company.

Equity Compensation

For directors and employees, income arising from the exercise of stock options is generally taxed at the date of exercise (fair market value at exercise - grant price) while income from restricted stock units is taxable at the point of vesting. Income arising from certain qualified stock options (qualified for Japan tax purposes) is not taxable at exercise but is taxed instead as a capital gain when the stocks received at exercise are sold, if certain conditions are met. The point of taxation of equity compensation will depend on the specifics of the plan.

In general, for residents, income derived from the exercise of an employee stock option issued by a non-Japanese company is treated as employment income and subject to Japanese national and local inhabitant's tax at the graduated income tax rates. In addition, gains from the sale of the equity acquired are subject to income tax at 15.315% national and 5% local tax (if the individual is a tax resident) unless certain other conditions are met.

Personal Income Tax

In Japan, permanent resident taxpayers are taxed on their worldwide income. Non-resident taxpayers are taxed only on their Japan-sourced income. Non-permanent resident taxpayers are taxed on their income other than foreign-source income (in particular, potentially, on certain capital gains) that are not remitted into Japan plus potentially part of their foreign-sourced income that is paid in or remitted to Japan.

A resident taxpayer is an individual taxpayer (i) who has a 'jusho' (i.e. a residence) in Japan; or (ii) who has maintained a 'kyosho' (i.e. a temporary place of abode) in Japan for a period of one year or more. A resident taxpayer who is not a Japanese national and who has an aggregate stay in Japan of five years or less within the preceding ten years (60 months within the preceding 120 months) would be classified as a non-permanent resident taxpayer. If a resident taxpayer is a Japanese national, or a foreign national with an aggregate stay in Japan of more than five years within the preceding ten years, the taxpayer is considered a permanent resident taxpayer.

The taxability of income by income type has been summarized below:

Type of Residence		Income Other Than Foreign-Sourced Income		Foreign-Sourced Income		
More Than	Less Than	Paid Within Japan	Paid Outside Japan	Paid Within Japan	Paid Outside Japan (Remitted to Japan)	Paid Outside Japan (Other)
Residents	Permanent Residents	Taxable	Taxable	Taxable	Taxable	Taxable
	Non-Resident	Taxable	Taxable	Taxable	Taxable	Non-Taxable
Non-Residents		Taxable	Taxable	Non-Taxable	Non-Taxable	Non-Taxable

Self-Assessed Income Tax

Self-assessed income tax on residents

Income is calculated using methods established for each of a number of income classifications. The tax is calculated by subtracting the various income deductions from the total amount of income and then multiplying the difference, which is the amount of taxable income, by the progressive tax rates below. Any withholding income tax levied on the income beforehand will be deducted from the calculated tax.

Self-assessed income tax on non-residents

Non-residents are classified by their circumstances into (a) non-residents having an office, etc., in Japan, (b) non-residents continuously engaged in construction or assembly in Japan for one year or more, or doing business through a designated agent in Japan, or (c) other non-residents.

Taxable income is calculated within the scope of income established for each classification. In the method of taxation for non-residents, income tax becomes taxable by dividing income into income attributable to permanent establishment and other domestic source income depending on the existence of permanent establishment. The amount of self-assessed income tax levied on non-residents is, as a rule, calculated in the same manner as for residents (subject to differences in the treatment such as the limit amounts of applicable income deductions and foreign tax deductions). Non-residents who earn salary income paid for services provided in Japan and not deemed subject to withholding tax in Japan must file a return and pay a 20.42% tax on the total amount of that salary.

The tax rates for self-assessed income tax on individual income (in the case of residents and of aggregate taxation of non-residents) are as shown below.

Annual Taxable Income (JPY)		Annual Personal Income Tax Based on Column One Value	Tax Rate on Amount Exceeding Column One Value
More Than	Less Than		
0	1,950,000	0	5%
1,950,000	3,300,000	97,500	10%
3,300,000	6,950,000	232,500	20%
6,950,000	9,000,000	962,500	23%
9,000,000	18,000,000	1,434,000	33%
18,000,000	40,000,000	4,404,000	40%



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40,000,000

13,204,000

45%

Filing and Payment

Residents must submit an income tax return for the income earned each year, except when tax payment procedures have been completed through withholding at source, and must pay the tax owed between February 16 and March 15 of the following year. Persons whose total income does not exceed total deductions and persons who receive salary income subject to withholding tax at source (year-end adjustment) from only one payer not exceeding 20 million yen in that year and who have no other income exceeding 200,000 yen do not, as a rule, need to file a return.

As a rule, non-residents file and pay taxes following the same regulations as residents. However, non-residents leaving Japan without reporting the designation of a tax agent to the director of the taxation office must submit an income tax return and pay the tax owed prior to leaving Japan.

Income tax withheld at source from employees through payroll calculation must be paid to the tax office which exercises jurisdiction over the place of business which paid the salaries, no later than the 10th day of the month following that in which the income was paid.

(If it falls on a Saturday, Sunday, or a national holiday, by first business day after the day.)

On the statement of payment, the employer needs to include the reference number designated by the tax office. In order to obtain the reference number, the employer needs to file 'The notification of the opening of a payroll office' to the jurisdictional tax office within a month of hiring the first employee.

Surtaxes

In case of tax withholding at source, the 2.1 % restoration income surtax will also be levied on the amount of withholding tax on income and collected together with the income tax. For example, the tax rate for withholding tax on interest paid to a foreign corporation is 20%, to which the restoration income surtax (20% x 2.1%) will be added, resulting in a total 20.42% tax withheld at source.

Note that a restoration income surtax is not levied where the withholding tax rate provided for under domestic law is reduced or eliminated by tax treaty.

Local Income Tax

"Individual inhabitant taxes" is the collective term for prefectural tax and municipal tax on individual income, and persons having a domicile etc. in Japan as of January 1 each year are subject to these taxes. Individual inhabitant taxes consist of an income-graded component and a flat-rate (fixed amount) component etc. The income-graded component is assessed on income for the preceding year and, except in special cases, taxable income for these taxes is calculated in accordance with the provisions for calculating income for income tax purposes. Inhabitant tax returns must be filed by March 15, but persons submitting self-assessed income tax returns do not have to file again for individual inhabitant tax. The standard rates of individual inhabitant taxes for the income-graded component are as shown below.



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Jurisdiction	Tax Rate
Municipal	4%
Prefectural	6%

The standard rate of tax for the flat-rate component is 1,000 yen for prefectural inhabitant tax and 3,000 yen for municipal inhabitant tax. For 10 years from 2014 to 2023, however, these rates will respectively be 1,500 yen and 3,500 yen.

Tax rates may differ from the standard tax rate depending on the local government concerned.

Non-Residents

A non-resident taxpayer's Japan-source compensation (employment income) is subject to a flat 20.42% national income tax on gross compensation with no deductions available. This rate includes 2.1% of the surtax described above ($20\% \times 102.1\% = 20.42\%$). A non-resident taxpayer may be subject to the local inhabitant's tax at a rate of 10% if they are registered as a resident as of 1 January of the current year.

Deductions

Employment Expenses

A resident taxpayer who earns income from employment is eligible for an earned income deduction for purposes of both the national income and local inhabitant's tax. The amount of the deduction is based on the amount of the employment income and is determined by reference to a deduction table.

Personal Deduction

Interest is not tax deductible. Japanese social security contributions are fully deductible. Medical expenses (irrespective of where they were paid) are tax deductible, with certain limitations.

Charitable contributions

Charitable contributions designated by the Ministry of Finance in Japan are tax deductible, with certain limitations. Qualified contributions or donations that total, in aggregate, over JPY 2,000 are deductible in computing the national tax. The total deduction is limited to 40% of income, less JPY 2,000. The definition of a qualified contribution is extremely restrictive (see the Other tax credits and incentives section for more information).

Life insurance premiums

Life insurance (or private pension) premiums paid to a Japanese agency in local currency are deductible to a limited extent in computing national and local inhabitants taxes.

Earthquake insurance premiums are also deductible for the purpose of both national and local inhabitant's tax to a limited extent.



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Mortgage deductions

Mortgage interest is not tax deductible. However, a tax credit on housing loans may be available for up to ten years where certain conditions are met. The total amount of tax credit is determined by the year in which the taxpayer began to reside in the property as well as mortgage balance at the end of the tax year.

Earned Income Deduction

Earned income deductions are calculated as follows:

Annual Taxable Income (JPY)		Employment Income Deduction
More Than	Less Than	
0	1,625,000	JPY 550,00
1,625,000	1,800,000	(employment income)×40% – JPY 100,000
1,800,000	3,600,000	(employment income)×30% + JPY 80,000
3,600,000	6,600,000	(employment income)×20% + JPY 440,000
6,600,000	8,500,000	(employment income)×10% + JPY 1,100,000
8,500,000		JPY 1,950,000



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Social Security

Japan has a universal insurance system whereby everybody residing in Japan must, in principle, take part in the public health (medical) insurance and pension insurance system.

Japan has four different kinds of insurance system which companies are legally obliged to take part in; all workers that meet certain criteria are covered by the insurance.

Workers' Accident Compensation Insurance

This covers any illness or injury at work or while commuting to or from work.

Employment Insurance

This provides for workers that become unemployed and helps to maintain stable employment such as by providing financial aid and subsidies.

Health Insurance and Nursing Care Insurance

These cover medical and nursing care expenses incurred by workers.

Employees' Pension Insurance

This provides benefits for old age, death or disability.

Generally, Workers' Accident Compensation Insurance and Employment Insurance are known collectively as "labor insurance," while Health, Nursing Care and Employees' Pension Insurances are referred to collectively as "social insurance."

A company must enter these insurance systems when first incorporating or hiring staff/workers by submitting labor and social insurance notification forms to the relevant authorities. The company usually pays insurance premiums by deducting the portion of the premiums payable by employees/workers from their wages, and paying these together with the portion of the premiums payable by the company to the relevant authorities.

Workers' Accident Compensation Insurance

Area	Description
Application	As a rule, this is compulsorily applicable to all workers. However, some workers such as officers of corporation or relatives living together may not be applicable. Principals of small and medium businesses (representative director, etc.) may be specially approved for coverage if they apply.
Benefit	Benefits are paid for any illness, injury, disability or death incurred as a result of an accident caused by a work or while commuting to or from work.
Premium	Premiums are generally calculated as a certain percentage of total amounts of each worker's wage . Premium rates depend on the kind of business carried out at the workplace; the maximum premium rate is 8.8% (for metal/non-metal/coal-mining industries) and the minimum is 0.25% (for finance, insurance telecommunications and broadcasting industries) (revised on April 2015). The employer bears the whole cost of premiums. 0.002% is added to the above premium to fund benefits for asbestos-induced diseases.
Notification	Notifications shall be submitted to the local Labor Standards Inspection Office within a period of 10 days starting on the day following that on which participation in the insurance program was established.

Employment Insurance

Area	Description
Application	In principle, this applies to all general workers. However, to qualify for Employment Insurance, prescribed working hours must not be less than 20 hours per week, and they must expect to be employed for not less than 31 days. Employees dispatched to Japan from an overseas company head office who enroll in a scheme equivalent to employment insurance overseas are exempt from this insurance.
Benefit	Benefits are paid for a predetermined period when the insured worker leaves his/her job; the amount of benefits are determined according to the reason for leaving the job, the length of time for which the insured was covered, the insured party's age, etc. There are also a number of benefits available for the purpose of maintaining stability of employment.
Premium	Premiums are calculated as a certain percentage of each worker's total wage. The insurance premium rate was 0.9% (the employer paying 0.6% and the worker paying 0.3%) with the exception of a few kinds of job.
Notification	Notifications must be submitted to the local Public Employment Security Office within a period of 10 days starting on the day following that on which participation in the insurance program was established.

Health Insurance and Nursing Care Insurance

	Area	Description
Application	Applicable Businesses	All incorporated companies without exception and a representative office which has 5 or more regular employees and falls under the prescribed kinds of businesses are obliged to take part in the insurance. Branches and sales offices of overseas companies are treated as incorporated businesses, and representative offices are treated as sole proprietorships.
	Insured Parties	Generally, all employees of the aforementioned applicable businesses are covered. Part-time employees are covered where their prescribed working hours are not less than 75% of those of full-time employees*1. Employees dispatched from overseas company head offices are covered, as are presidents and representative directors of incorporated companies. However, persons dispatched from the United States, Belgium, France, the Netherlands, the Czech Republic, Switzerland, Hungary, and Luxembourg to Japan who are enrolled in medical insurance in these countries are exempt from enrolling in Japan.
	Dependents	Insured parties' lineal ascendants, spouses, children, grandchildren and siblings whose livelihood is maintained mainly by the insured party are eligible to receive insurance benefits.
	Nursing Care Insurance	This applies only to those of 40 years or over.
Benefit	Medical Expense	70% of expenses incurred for medical treatment at designated Insurance Medical Institutions (this refers to medical institutions which have been designated as acceptable for medical insurance purposes; almost all medical institutions in Japan are designated) are covered by insurance, while the insured party must pay the remaining 30%. This also applies to dental expenses.
	Overseas Expenses	If an insured party incurs medical treatment expenses at a medical institution while staying or traveling overseas, he/she can apply to be reimbursed after returning to Japan. The amount of medical expenses incurred overseas is converted into a comparable amount of Japanese medical expenses, and 70% of that amount is reimbursed. It should be noted that this also applies to foreign nationals insured under this system who receive medical treatment in their own countries or other countries outside of Japan.

Area	Description
Excessive Medical Expenses	If the amount of medical expenses (e.g., the portion of medical expenses payable by the insured party) an insured party pays to a single medical institution within a single calendar month exceeds a predetermined amount, the amount of expenses excess of that predetermined level shall be reimbursed to the insured party as "Excessive medical expenses."
Contributions	General insurance premiums for the Japan Health Insurance Association Run Health Insurance are 9.90% (in Tokyo*4) of each insured party's standard monthly remuneration*2 (maximum: 1.39 million yen) and standard bonus*3 (maximum: 5.73 million yen per year). For those of 40 years or over, 11.47%. In either case, the insured party and the employer share the premiums equally (revised on April 2018). In the case of Union Run Health Insurance*5, a certain amount of leeway in deciding insurance premiums is granted to the managing union.
Notification	Notifications must be submitted to the local Pension Office or Health Insurance Union Office within a period of five days starting on the day following that on which participation in the insurance program was established.

Ineligibility for National Health Insurance

Area	Description
Application	People who are not eligible for Health Insurance coverage as described above must enter into the National Health Insurance scheme run by their local city, ward, town or village government.
Benefit	With a few exceptions, National Health Insurance benefits are virtually the same as those under the above-described Health Insurance.
Premium	Premiums are determined by each operating local government within certain limitations.

In Japan, everybody has an obligation to take out one of the above forms of public health (medical) insurance. Because you will therefore inevitably have Health Insurance in Japan, if you choose to take out private insurance with an overseas company, it is better to ensure that the coverage of that private insurance does not overlap with your Japanese public insurance coverage.

*1: Part-time employees working for an enterprise with 501 or more employees are also insured where their working hours are at least 20 hours per week receiving a monthly pay of at least 88,000 yen with a prospect of continuous employment of at least one year. At an enterprise with 500 or less employees, part-time employees meeting the same requirements become insured based on the agreement between the employer and employees(excluding students).

*2: Effective from September 2009, premium rates for health insurance administered by the Japan Health Insurance Association have changed from a uniform rate to one that varies depending on prefecture.



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*3: Standard monthly remuneration refers to the division of the total amount of wages and other such payments into predetermined brackets.

*4: Standard bonus refers to the amount of the bonus rounded down to the nearest unit of 1,000 yen.

*5: Union Run Health Insurance refers to an insurance scheme provided by a union run by a company or a group of companies.

Area		Description
Application	Applicable Businesses	All incorporated companies without exception and a representative office which has 5 or more regular employees and falls under the prescribed kinds of businesses are obliged to take part in the insurance. Branches and sales offices of overseas companies are treated as incorporated businesses, and representative offices are treated as sole proprietorships.
	Insured Parties	Generally, all employees of the aforementioned applicable businesses are covered (with the exception of those over 70 years old). Part-time employees are covered where their prescribed working hours are not less than 75% of those of full-time employees*1. Employees dispatched from overseas company head offices are covered, as are presidents and representative directors of incorporated companies.
Benefit	Old-age Pension	This is generally paid to people not less than 65 years old who have paid Employees' Pension Insurance premiums (or been officially exempted from paying premiums) for not less than 10 years in total (this need not be consecutive). The amount of benefit is calculated according to the amount of insurance premiums paid and the length of the period over which they were paid.
	Disability Pension	Where the illness or injury that causes disability occurs during the period when the disabled party is insured under the Employees' Pension Insurance system, the regular pension or lump sum shall be paid to the disabled party. The amount of benefit is calculated according to the degree of disability, the amount of insurance premiums paid and the length of the period over which they were paid.
	Survivor's Pension	If an insured party, a person who is eligible to receive an old-age pension or a person receiving a disability pension who fulfills certain conditions dies, a survivor's pension shall be paid to that person's surviving family.
Contributions	Rate	Insurance Contributions are 18.3% of the insured party's standard monthly remuneration (maximum: 620,000 yen) and standard bonus (maximum: 1.5 million yen); the insured party and the employer share the Contributions equally.

Area	Description
Social Security Agreement	<p>Japan has concluded social security agreements with Germany, the U.K., South Korea, the U.S., Belgium, France, Canada, Australia, the Netherlands, the Czech Republic, Spain, Ireland, Brazil, Switzerland, Hungary, India, and Luxembourg. If any person is sent from one of these countries to Japan to work temporarily and is insured under the pension system of the sending country, that person shall be exempted from coverage of the Japanese pensions.</p> <p>Presenting the certificate of coverage issued in the sending country is requested by a Japanese relevant institution in case of necessity. Japan has already signed the agreements with Italy, the Philippines, the Slovak Republic, and China, and governmental talks are underway with Sweden, Turkey, and Finland. Preliminary talks are also underway with Austria.</p>
Lump-sum Withdrawal Payments	<p>When a foreign national who has at least 6 months of coverage periods under Employees' Pension Insurance and returns to his/her country without fulfilling entitlement period of the pensions, he/she can claim Lump-sum Withdrawal Payments for the amount basically corresponding to the coverage periods under Employees' Pension Insurance, 36 months at most.</p>
Notification	<p>Notifications must be submitted to the local Pension Office within a period of five days starting on the day following that on which participation in the insurance program was established.</p>

*1:Part-time employees working for an enterprise with 501 or more employees are also insured where their working hours are at least 20 hours per week receiving a monthly pay of at least 88,000 yen with a prospect of continuous employment of at least one year. At an enterprise with 500 or fewer employees, part-time employees meeting the same requirements become insured based on the agreement between the employer and employees (excluding students).

Every person aged between 20 and 59 (inclusive) residing in Japan and without Employees' Pension Insurance must be a part of the national pension system. Contributions are a fixed amount per month (16,340 yen from April 2018 to March 2019) and participants in the system are eligible for Old-age Pension, Disability Pension and Survivor's Pension as well as Lump-sum Withdrawal Payments for a foreign national similar to that of the above-mentioned Employees' Pension Insurance system.

Representative Offices



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Labor insurance (Workers' Accident Compensation/Employment Insurance): In principle, when the individual, who is working at the representative office of a foreign corporation, falls under the definition of "workers" under the Labor Standards Act in Japan, he/she is eligible for Industrial Compensation Insurance. Whether the representative of the office is applicable to the definition of "workers" or not is respectively determined based on the actual situation of work. When the representative of the office is not a worker, the labor insurance does not apply. However, under certain conditions, there is a scheme in place to allow the representative insured by Worker's Accident Compensation Insurance as a special enrollment at his/her own cost.

Social insurance (Health/Employees' Pension Insurance): In case of a representative office with less than 5 employees, in principle voluntary coverage with the representative of the office as the employer (the representative does not become the person insured) is available. If a representative office has 5 or more employees and falls under the prescribed kinds of businesses, as a general rule, insurance coverage is mandatory. In principle, a representative does not become the person insured, because a representative is an employer of sole proprietorship. However, as an exception, a representative can sometimes be granted eligibility to be insured if documents certifying the representative's status as an employee of the overseas head office are submitted. However, the ultimate decision to allow for this exception lies with each local competent authority.

Insurance	Benefit	Coverage	Premium rate (% of total annual wage)		Remarks
			Employer	Employee	
Workers' Accident Compensation Insurance	Benefits are paid as compensation for medical expenses, work missed, disability or death incurred as a result of work or while commuting to or from work.	All businesses that employ workers must have this insurance.	0.35% (in cases of import and trade, and sales industries)		Special coverage available for employers. Premium rates differ according to industry.
Employment Insurance	Benefits are paid to unemployed workers, workers on child care leave and the elderly.	All workers whose prescribed working hours are not less than 20 hours per week must have this insurance.	0.6%	0.3%	Persons enrolled in unemployment compensation programs overseas are exempt.
Health Insurance and Nursing Care Insurance	Benefits are paid for illness or injury not arising as a result of work or while commuting,	All incorporated companies without exception and sole proprietorships	4.950% (5.735% if aged 40 or over)	4.950% (5.735% if aged 40 or over)	This premium rate applies only to Japan Health Insurance Association Run



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Insurance	Benefit	Coverage	Premium rate (% of total annual wage)		Remarks
			Employer	Employee	
	and for childbirth, etc.	with five or more regular employees are generally obliged to take part in the insurance			Health Insurance (in Tokyo). Maximum standard monthly remuneration: 1,390,000 yen
Employees' Pension Insurance	Benefits are paid for old age, disability and death.	All incorporated companies without exception and sole proprietorships with five or more regular employees are generally obliged to take part in the insurance	9.15%	9.15%	Lump-sum Withdrawal Payments for a foreign national when returning to his/her country. Maximum standard monthly remuneration: 620,000 yen
Child Benefits Contribution	Contribution to a social welfare system for child benefit, and differs in nature from the welfare benefits offered to workers through their employers.		0.29%		Maximum standard monthly remuneration: 620,000 yen
Total			15.340% (16.125% if aged 40 or over)	14.400% (15.185% if aged 40 or over)	

*0.002% is added to the premium rate for Workers' Accident Compensation Insurance to fund benefits for asbestos-induced diseases.

*When the remuneration exceeds the maximum amount of standard monthly remuneration, the insurance premium at the maximum amount of standard monthly remuneration shall be applied.

Premiums on child allowance are imposed separately at a rate of 0.34%.

Japan social insurance paid by the employee is deductible for Japan income tax purposes.

Payroll

Pay Day and Computation Period

The following typical payroll rules apply in Japan:

Computation Period : 1 month - from the first to the last day of the month

Pay Day : 25th of every month (For the period of the 26th to the last day of the month, it will be paid in advance / if the payday is a non-working day, it will be paid on the business day just before.)

The Method of Payment : Bank Transfer

Salary Revision : Once a year

If the employer pays bonuses the bonuses must be defined in the employment agreements.



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Employment Law

Paid Leave

Employers must grant 10 days' paid leave to employees that worked for six consecutive months from the time of hiring and who worked on not less than 80 per cent of all schedule work days. This paid leave may be taken consecutively or separately. Where an employee's application to take paid leave will hinder the normal business operations, the employer may require the employee to take such paid leave at a different time. The number of days of paid leave available to employees increases in proportion to employees' length of service as set forth in the following table.

Years of Service	0.5	1.5	2.5	3.5	4.5	5.5	6.5
Limit	10	11	12	14	16	16	20

The right to annual paid leave expires after two years. In other words, annual paid leave left over from one year may be carried over and taken the next year only. For instance, if an employee is awarded 10 days' paid leave in 2004, but opts not to take paid leave in that year, the employee may carry those days over to 2005 and use them in addition to any leave days which become available in 2005. However, those 10 days awarded to the employee in 2004 cannot be carried over to 2006 or beyond. It should also be noted that employees that have been continuously employed at the same company for not less than seven years and six months can take a maximum of 40 days' paid leave in any one year, including days that became available within that year and those carried over from the previous year. If a worker does not fully exercise their right to annual paid leave and it expires for reasons such as expiration or retirement, whether to provide payment in lieu for the unused number of days of paid leave depends on the agreement at the company. However, such handling is not desirable as this can discourage workers from taking annual paid leave, and it is important to develop a work environment where annual paid leave can easily be taken.

While annual paid leave previously had to be taken in units of whole days, up to five days' worth of paid leave per year can now be taken in hourly units if agreed upon in a labor-management agreement (under revisions to the Labor Standards Act that took effect on April 1, 2010).

Employers are not required to grant paid leave days in addition to those described above to cover days on which employees did not work as a result of any non-work-related illness or injury. It should also be noted that most Japanese companies grant a few additional paid leave to employees for marriage, death of close relatives, and childbirth by the employee's spouse, etc.

Part-time workers with few working days and short working hours per week are granted annual paid leave in proportion to the number of prescribed working days that they work.

Other Leaves

Maternity Leave

If an employee of expectant mother requests permission for leave of absence six weeks prior to the expected date of delivery (14 weeks in the case of multiple pregnancies), the employer must approve the request.



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Furthermore, employers are, in principle, prohibited to cause any female employee to work for a period of eight weeks commencing from the day following that on which the employee gave birth.

Childcare Leave

If an employee with a child aged less than one-year-old requests permission for a leave of absence (by the child's first birthday in principle, or up to the age of 14, 18 or 24 months if certain conditions are met), the employer must approve the request. Employers may deem employees who have worked at the company for less than one year to be ineligible for childcare leave, provided, however, that the employer does so by stipulating to that effect in a labor-management agreement.

If an employee with a child aged less than three years old requests to be exempted from non-scheduled work, he/she must not be made to work in excess of prescribed working hours. If an employee with a child aged less than three years old requests to take short-time working hour system, he/she must be allowed to do so. If an employee with a child of preschool age requests to be exempted from non-scheduled work, he/she must not be made to work overtime in excess of 24 hours in a month or 150 hours in a year.

Family Care Leave

If an employee with a family member who has been judged to require a certain level of nursing care requests permission for a leave of absence to provide such nursing care, the employer must approve such a request in separate periods for up to three times for a total of 93 days per family member concerned. Employers may deem employees who have worked at the company for less than one year and those whose employment will terminate after the 93 day period and 6 months pass from the scheduled start date of family care leave as ineligible for family care leave, provided, however, that the employer does so by stipulating to that effect in a labor-management agreement.

If an employee with a child of preschool age requests to nurse his/her sick or injured child, he/she may take a leave of absence of up to five days per year (or up to 10 days per year if he/she has two or more children of preschool age). In addition, if an employee with a family member requiring nursing care requests permission for a leave of absence to nurse such a family member, he/she may take a leave of absence of up to 5 days per year (or up to 10 days per year if he/she has two or more of such family members). This leave can be taken in half-day increments (one-half of scheduled working hours for a single day).

Immigration

Any foreign national wishing to enter Japan must have a valid passport, which, in principle, contains a visa corresponding to his/her purpose of entry into Japan obtained in advance from a Japanese embassy, consulate or other Japanese diplomatic mission abroad (hereinafter, "Japanese diplomatic mission abroad"). Upon landing in Japan, the foreign national must then be screened by, and receive a landing permission stamp from, an immigration officer at the port of entry, who will decide on the foreign national's status of residence and period of stay (however, this visa requirement does not apply to entry by nationals of countries with which Japan has reciprocal visa exemption arrangements for temporary visitor visa or to entry by foreign nationals having re-entry permission).

Status of Residence

Foreign nationals entering and residing in Japan must generally receive landing permission upon arriving at their port of entry, at which time their status of residence in Japan will be determined. In other words, the status of residence constitutes the grounds on which a foreign national is permitted to stay in Japan; it is a qualification enabling the foreign national to carry out the activities stipulated in the Immigration Control and Refugee Recognition Act and to reside in Japan for the purpose of carrying out those particular activities. The scope of activities in which a foreign national may engage during his/her stay in Japan is determined according to his/her status of residence. Except where a permit to engage in an activity other than that permitted by the status of residence is obtained, the foreign national must not, in principle, engage in any activities generating an income other than those permitted by his/her status of residence.

Visas are applied for and obtained at Japanese diplomatic missions abroad. The visa processing may take considerable time when an applicant applies for a long-term stay, such as for the purpose of work. Thus, the Immigration Bureau in Japan often screens these applications in advance to determine whether or not the activities intended by the foreign national wishing to enter and reside in Japan correspond to the conditions for the status of residence being sought; if it is determined that these activities do in fact meet the conditions for the status of residence, a Certificate of Eligibility is issued. If this Certificate of Eligibility is presented to a Japanese diplomatic mission abroad together with a visa application, generally a visa will be issued in five working days. A Certificate of Eligibility is not applicable to temporary visitor visa.

Working Statuses

Below are shown the principal statuses of residence related to investment in Japan and the activities authorized in Japan for each status.

Type	Description
Business Manager	Active in operating or managing international trade or other areas of business within a public or private organization in Japan.



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Type	Description
Engineer/ Specialist in Humanities/ International Services	Engaged in services which require skills or knowledge pertinent to physical science, engineering or other natural science fields, or in services which require knowledge pertinent to jurisprudence, economics, sociology or other human science fields, or in services which require special consideration or sensitivity based on experience with foreign culture, based on a contract with a public or private organization in Japan.
Intra-company Transferee	A staff member transferred to a business office in Japan for a limited period of time from a business office established in a foreign country by a public or private organization which has its head office, branch office or other business office in Japan, to conduct work at said business office in Japan which is listed in the "Engineer/Specialist in Humanities/International Services" column of this Table.
Legal/Accounting Services	Engaged in legal or accounting work, which is required to be carried out by registered foreign lawyers "Gaikokuhoujimubengoshi", or certified public accountants "Gaikokukoninkaikeishi" or those with other legal qualifications.
Skilled Labor	Engaged in services which require industrial techniques or skills belonging to special fields based on a contract with a public or private organization in Japan.

Required Documents

The following documentation is generally needed when applying for a Certificate of Eligibility for all working statuses:

1. Application for Certificate of Eligibility
2. One full-face photograph (4 cm in height x 3 cm in width)
3. Return-mail envelope (with 392 yen postage affixed)
4. A copy of employment agreement
5. Document certifying academic qualifications (may not be necessary in some cases)
6. Curriculum vitae (may not be necessary in some cases)
7. Certified copy of the company register of an organization of affiliation (organization to which the foreign resident belongs) in Japan
8. Company brochure of an organization of affiliation in Japan
9. Copy of financial statements of an organization of affiliation in Japan (When a corporation, branch, or representative office to be newly established in Japan serves as the organization of affiliation, a business plan stating the cash flow forecast of such organization).

In addition to the above, submission of a copy of a certificate of job content, certificate of employment by current and past employers, foreign company's business brochure, business license, and similar documents will be required depending on the type of status of residence. Furthermore, when the organization of affiliation in Japan is a representative office of a foreign company, it is not possible to obtain the certified copy of the company register specified in 7 above. Instead, documents such as the lease agreement and



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layout plan of the office, and a document certifying the resolution made in the home country of opening a Japanese representative office are required.

The following documentation is generally needed when applying for a working visa at a Japanese diplomatic mission abroad after a Certificate of Eligibility has been issued:

1. Visa application form
2. Passport
3. Certificate of Eligibility and copy thereof
4. Full-face photograph (1-2 photos, 4.5 cm in height x 4.5 cm in width)



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Everywhere for Everyone

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Supported by 500+ payroll and HR specialists with in-depth local knowledge, Mercans operate globally. Our pioneering human resources consulting services and trailblazing SaaS platforms are already satisfying 5,000+ international clients, ensuring timely measurable results and bottom-line savings. Thanks to success-oriented teams striving for excellence and taking care of our clients' tasks within budget, we have gained the trust of major multinational companies.

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Mercans cloud-based SaaS Products, HR Blizz™ & Mesar™, combine the performance of proprietary technologies with a human touch. Cost-effective, they are fully-compliant self-service tools, packed with smart built-in features for your peace of mind. All your data are integrated into single interfaces accessible from everywhere and on any device.

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+1 877 MERCANS (637 2267) | Toll-Free

Europe: +44 20 328 777 62

North America: +1 646 798 5541

Middle East: +971 43 999 260

Asia: +81 50 5539 5354

info@mercans.com | mercans.com

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