

MARKET EXPANSION WEBINAR SERIES:

New Business Opportunities in Japan
for Overseas Asset Managers 2022

Part 2: Financial Regulation & Taxation

September 14, 2022 | 4 PM (JST / UCT+9)

TRICOR GROUP CATALYZES EVERY STAGE OF
YOUR BUSINESS GROWTH IN ASIA AND BEYOND

QUESTIONS:

- Please send us your questions through the Chat function
- We will answer them all together in the Q&A session at the end

TECHNICAL DIFFICULTIES:

- Download the Zoom app if you have not yet done so
- Use Google Chrome if you have to join on browser
- Check your internet connectivity, e.g. LAN cable connection
- Turn on your speakers and adjust the volume
- Try another device, e.g. PC, Mac, iPad, iPhone or Android device

RECORDING:

- This webinar is being recorded
- The recording and webinar-on-demand playback will be available after the session

Today's Presenters

tricolor

GUEST SPEAKERS:



Koji Yamamoto
Partner
Withers



Yoshiyuki Omori
Partner
Withers



Brajeshwar Banerjee ("Ban")
Tax Partner
FinTech Group
KPMG Japan



Daisuke Hasegawa
Tax Partner
FinTech Group
KPMG Japan

FEATURED SPEAKERS:



Takuma Tanaka
Deputy Director,
Strategy Development
Division
Japan Financial
Services Agency
(JFSA)



Scott Sato
CEO
Tricolor Japan



Gary Tok
Group Chief
Commercial Officer
Tricolor Group

MODERATOR:



4:00 to 4:05pm

Opening by Gary Tok (Tricor Group)

International Financial Center Initiative

Takuma Tanaka (Japan Financial Services Agency)



4:05 to 4:35pm

Financial Regulation

Koji Yamamoto & Yoshiyuki Omori (Withers Law Firm)

Overview of the primary financial licences, as well as the regulatory and practical considerations for fund managers



4:35 to 5:05pm

Taxation

Brajeshwar Banerjee & Daisuke Hasegawa (KPMG Japan)

Overview of the Japanese tax laws that fund managers should know when engaging in asset raising or investing activities in Japan



5:15 to 5:25pm

Japan Wants You

Scott Sato (Tricor Japan)



5:05 to 5:15pm

Q&A Session

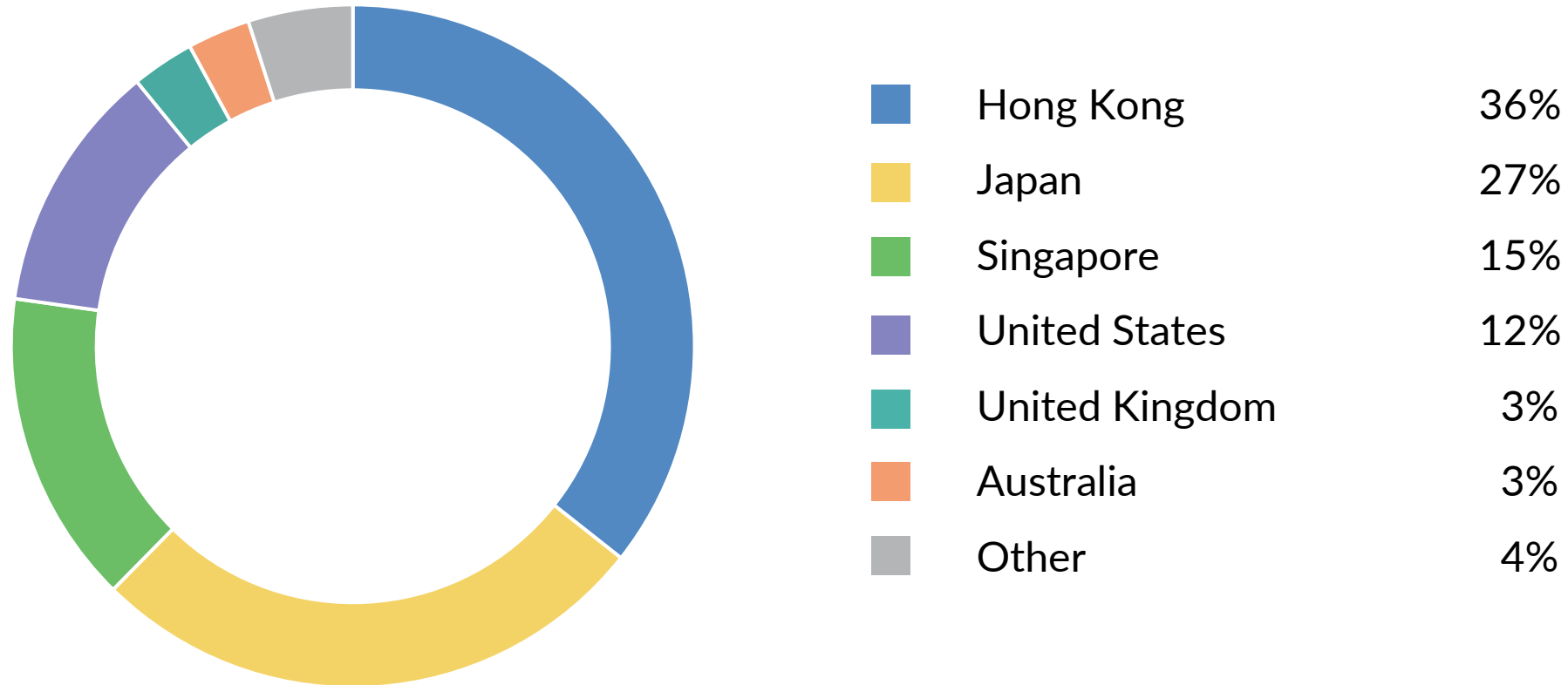
Gary Tok (Tricor Group)

Closing by Gary Tok (Tricor Group)

A little about you, the audience - Location

tricolor

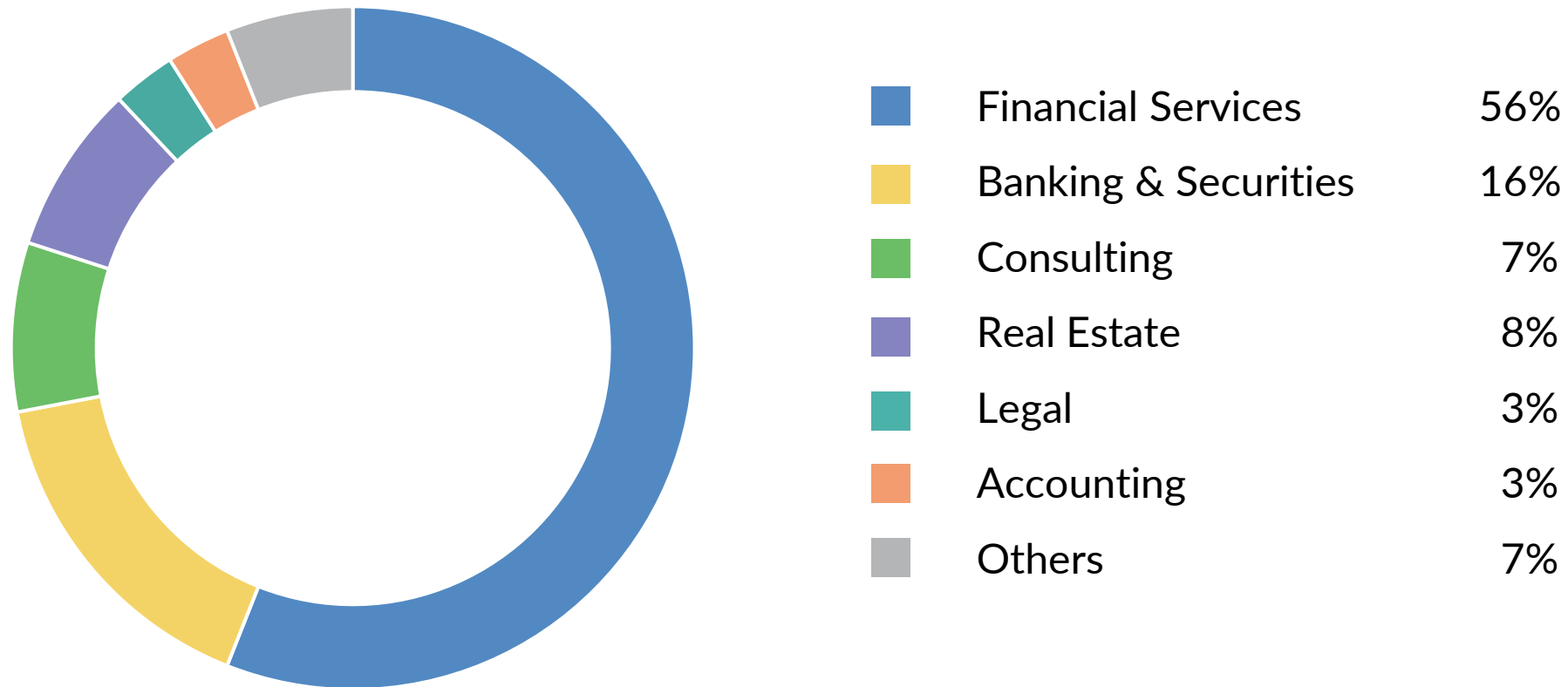
WHERE IS YOUR COMPANY BASED?



A little about you, the audience - Industry

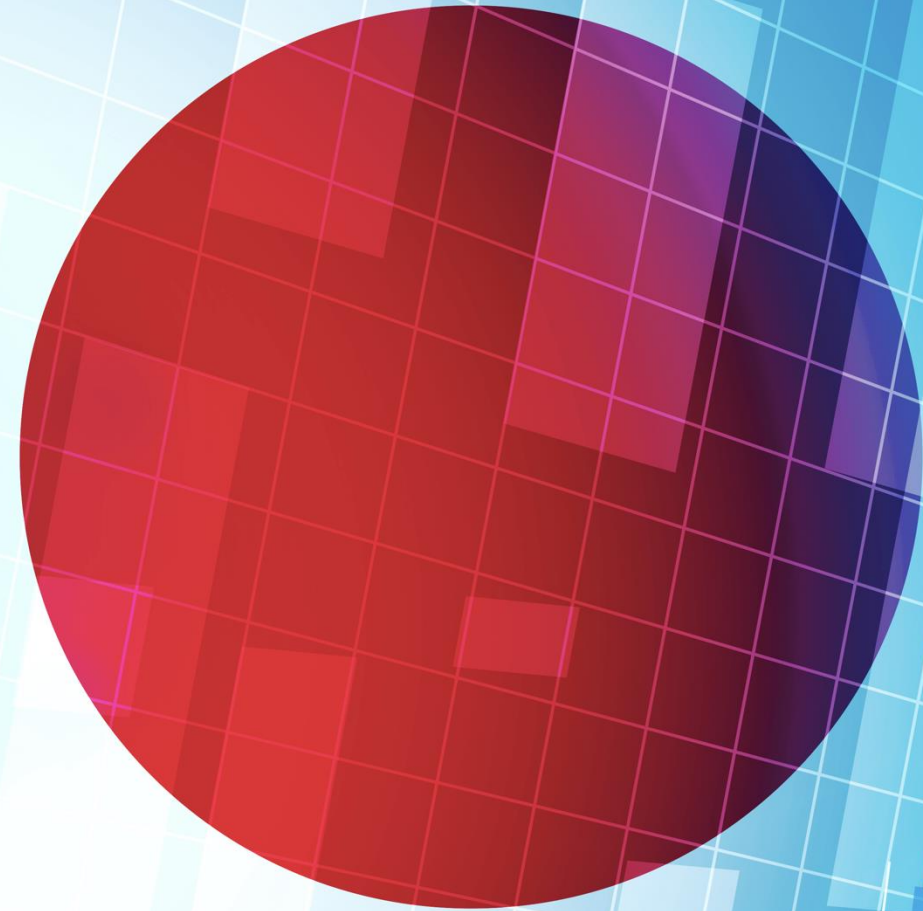
tricolor

WHAT INDUSTRY IS YOUR COMPANY INVOLVED IN?



International Financial Center Initiative

Takuma Tanaka
Japan Financial Services Agency





- What is the “International Financial Center Initiative”?



- What are the policy rationales?



- What are the top frequently-asked-questions?



The “International Financial Center Initiative” continues to be a top priority for the Government of Japan.

“ In order to realize the new form of capitalism I illustrated today, **we need to revive Japan as an international financial center.**

When I was the Chairperson of the Policy Research Council of the Liberal Democratic Party, I made decisions that helped to facilitate the entry of foreign investment managers, revive of the corporate governance code, and introduce greater flexibility in the requirements for professional investors. **As Prime Minister, I will continue to lead to achieve steady progress.** ”

Speech by Prime Minister KISHIDA Fumio at the Guildhall in London (May 5, 2022)

Since its opening, the Financial Market Entry Office has completed twelve registration cases.

	Name	Registration Date	Licenses	From
1	Affirmative Investment Management	Apr. 2021	IAA	GBR
2	Schonfeld Strategic Advisors	May 2021	IM & IAA	USA
3	Columbia Threadneedle Investments	Aug. 2021	IAA	USA
4	Dymon Asia Capital Japan	Aug. 2021	Pro-IM	SGP
5	EQT Partners	Dec. 2021	IAA	SWE
6	Minerva Growth Partners	Feb. 2022	IAA	HKG
7	Federated Hermes	Apr. 2022	IAA	USA
8	BMO Japan Securities	Jun. 2022	Type I	CAN
9	Pantheum Partners	Jul. 2022	IAA	HKG
10	Columbia Threadneedle Investments	Aug. 2022	Type II	USA
11	Citadel Securities	Aug. 2022	Type I	USA
12	EQT Partners	Sep. 2022	Type II	SWE

Financial Market Entry Office - Case Studies

tricolor

Our official website publishes several “case studies” to share practical insights for incoming asset managers.



June 2021

**Affirmative Investment
Management Japan Inc.**

Mitsuo Kojima
President &
Representative Director



March 2022

Minerva Growth Partners, Inc.

(Left) Kei Nagasawa
(Right) Kensuke Murashima
Representative Director, Co-
Founder & Managing Partner



October 2021

**Columbia Threadneedle
Investments Japan Co.,
Ltd.**

Yoshihisa Kojima
Representative Director
& CEO, Head of Japan



June 2022

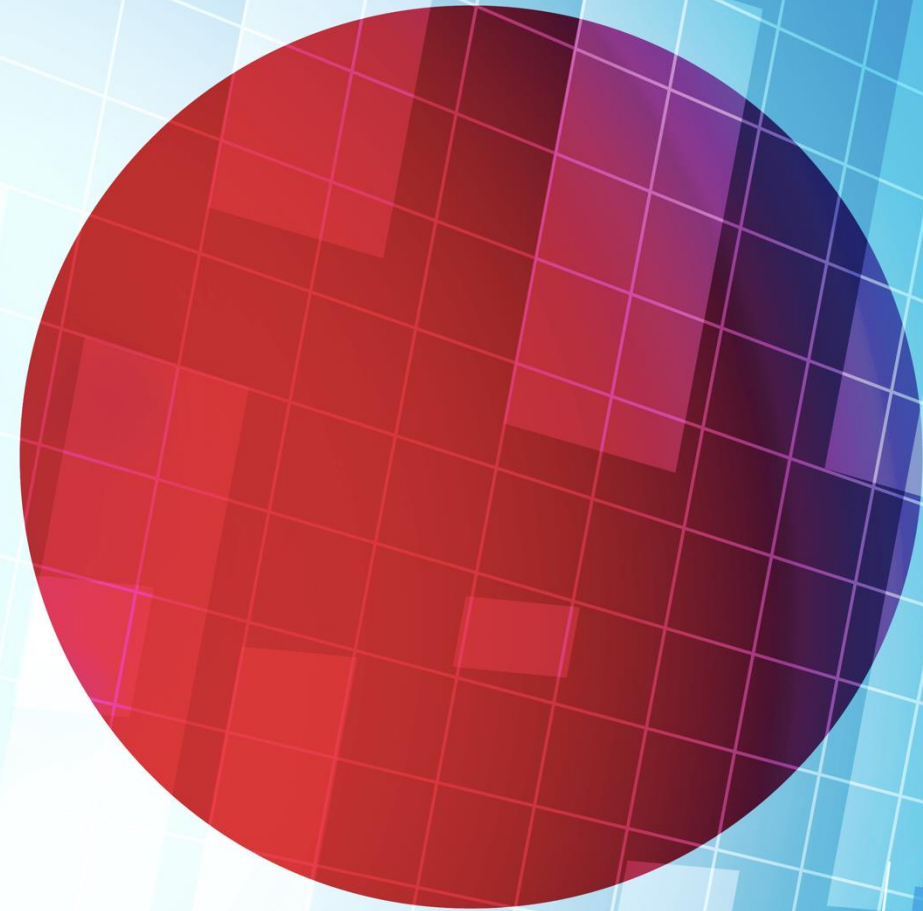
**Federated Hermes Japan
Ltd**

Wataru Horii
Representative Director,
Head of Distribution,
Japan

Financial Regulation:

Overview of the Financial Instruments
Business Registrations and the
Registration Process

Koji Yamamoto & Yoshiyuki Omori
Withers Law Firm



Japan Regulatory Presentation

Overview

Japan Regulatory Regime for Financial Institutions

- As the 3rd largest economy, the relevance and importance of Japan cannot be overlooked as many financial institutions seek to establish operations in Japan
- Proper understanding of the various Financial Instruments Business Registrations and the registration process itself is essential
- This presentation will cover the following specific topics in relation to the Financial Instruments Business Registrations:
 1. Overview of the Four Financial Instruments Business Registrations under the Financial Instruments and Exchange Act of Japan (“**FIEA**”)
 2. Setting up an office in Japan
 3. The Process of Registering as a Financial Instruments Business Operator in Japan (“**FIBO**”)



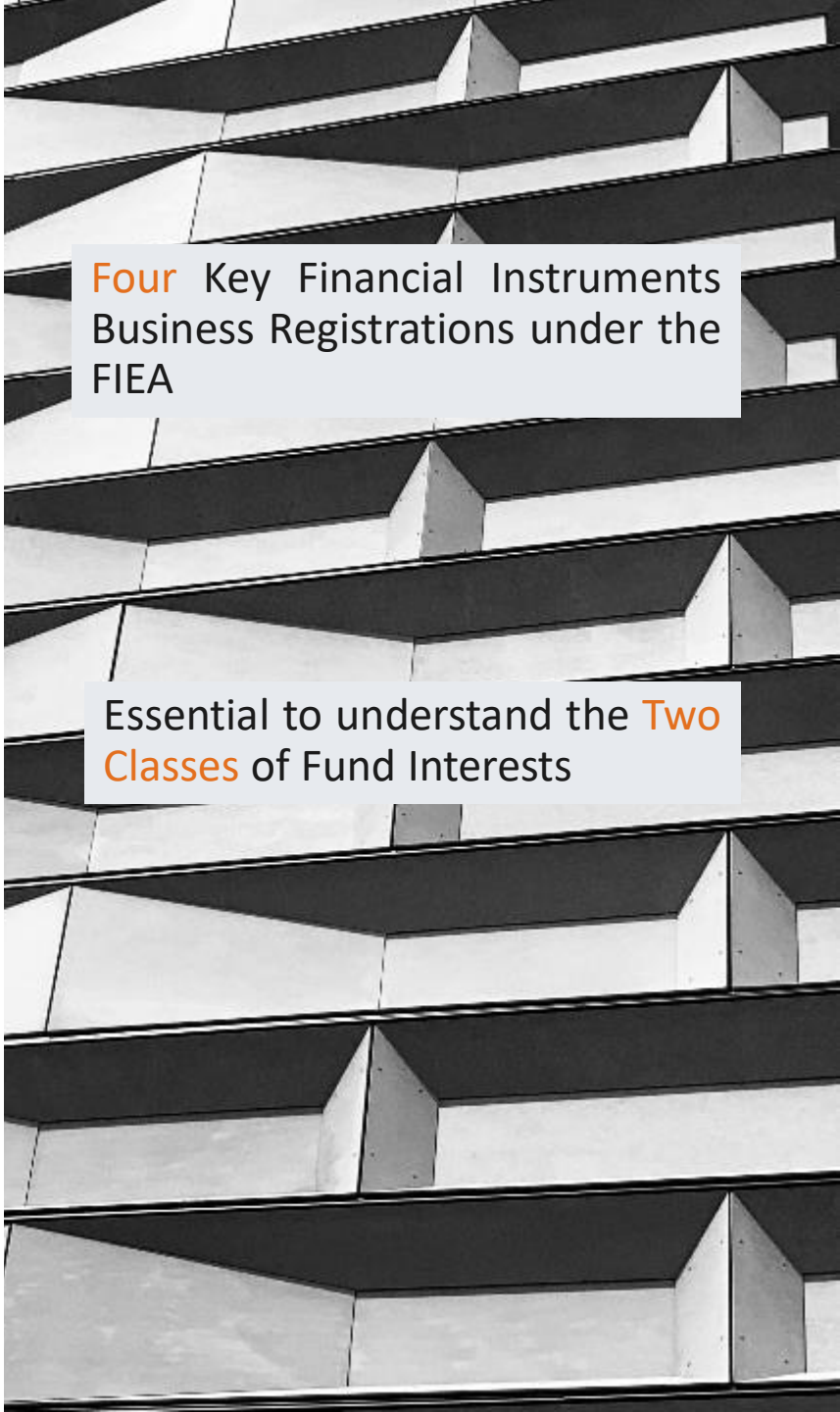
Four Financial Instruments Business Registrations

Four FIBO Registrations

1. Type 1 Financial Instruments Business (“**Type 1 Dealer**”)
2. Type 2 Financial Instruments Business (“**Type 2 Dealer**”)
3. Discretionary Investment Management Business (“**DIM Business**”)
4. Investment Advisory and Agency Business (“**IAA Business**”)

Two Classes of Fund Interests

- **Paragraph 1 Securities:**
 - Shares of capital stock companies, bonds, warrants, commercial paper, units of Cayman trusts and FCPs, shares of Cayman corporations, shares of SICAV, etc.
 - Generally only may be sold to Japanese investors by a Type 1 Dealer
- **Paragraph 2 Securities:**
 - Trust certificates, interests of Japan limited liability companies and Japan general partnership companies, limited partnership company, interests of limited partnership, limited liability companies, etc.
 - Generally only may be sold to Japanese investors by a Type 2 Dealer



Four Key Financial Instruments Business Registrations under the FIEA

Essential to understand the Two Classes of Fund Interests

1. The Type 1 Financial Instruments Business

Permissible Activities

Essentially the full brokerage registration – the hardest registration to attain.

A Type 1 Dealer may also engage in a wide range of activities as set forth in Article 28 (1) of the FIEA, such as:

- The marketing or offering of Paragraph 1 Securities;
- Trading in Paragraph 1 Securities or engaging in market derivative transactions of Paragraph 1 Securities; and
- Intermediation, brokerage or acting as agent in the trading of, or ordering of trading, Paragraph 1 Securities.

Main Requirements

- Substantial amount of personnel and internal structure requirements, such as the staffing of a compliance officer, risk control manager, and internal control managers
- Having a minimum of JPY 50 million in capital and net assets
- The applicant is either a Japan stock company (a “**K.K**”) or a branch of a K.K equivalent company, with a Board of Directors, as well as a Statutory Auditor
- Minimum Capital Adequacy ratio of 120% or more
- Membership in the Japan Securities Dealers Association (“**JSDA**”), or establish internal rules similar to those rules governing members of the JSDA



2. The Type 2 Financial Instruments Business

Permissible Activities

Permitted to engage in the marketing of Paragraph 2 Securities in Japan.

A Type 2 Dealer may also engage in any of the activities set forth in Article 28 (2) of the FIEA, such as:

- trading in Paragraph 2 Securities or engaging in market derivative transactions of Paragraph 2 Securities; and
- intermediation, brokerage or acting as agent in the trading of, or ordering of trading, Paragraph 2 Securities.

Main Requirements

- A moderate amount of personnel and staffing requirements, including but not limited, to a compliance staff and risk control staff
- Having a minimum of JPY 10 million in capital and net assets
- Must have a business office or office in Japan
- Either become a member of the Type 2 Dealers Association or, establish internal rules similar to those rules governing members of the Type 2 Dealers Association



3. The Discretionary Investment Management Business

Permissible Activities

Provide discretionary investment management services to a person or entity in Japan; or to engage in a discretionary investment management business from Japan.

Black letter law, there are various types of businesses under this registration (e.g. self-management for LP Funds, self-management for trusts, standard discretionary investment management (*toushi ichinin keiyaku*)).

Subset of this business registration for discretionary investment managers who focus only on investment management mandates from “**Qualified Investors**” under the FIEA (a “**Pro-DIM Business**”). Pro-DIM Business registration has slightly more relaxed registration requirements compared to the DIM Business registration though a limitation on the maximum managed assets of **JPY20 billion**.

DIM Registration and Pro-DIM Registration have become increasingly popular as a means of “indirect” capital raising.

Main Requirements (Standard DIM Business)

- Substantial number of personnel and staffing requirements, including the retention of a full-time compliance officer (For Pro-DIM: Compliance function may be outsourced)
- Having a minimum of JPY 50 million in capital and net assets. (For Pro-DIM: JPY 10 million)
- The applicant is either a K.K or a branch of a K.K equivalent company, with a Board of Directors, as well as a Statutory Auditor. (For Pro-DIM: Statutory Auditor only)
- Membership in the Japan Investment Advisers Association (“**JIAA**”) or establish internal rules similar to those rules governing members of the JIAA



4. The Investment Advisory and Agency Business

Permissible Activities

IAA registration covers two specific activities:

- (1) investment advice; and
- (2) intermediary/agency.

Permitted to engage in the provision of investment advice with respect to the value of securities; or investment decisions based on the value of financial products.

Permitted to engage in the provision of intermediary or agency services for parties entering into either investment advisory agreements, or discretionary investment management agreements.

Main Requirements

- Relatively the most relaxed personnel and staffing requirements compared to the other FIBO registrations
- Required to have the necessary personnel to properly engage in the IAA Business, such as a compliance officer or director who oversees the compliance function
- No minimum capital requirement, but a deposit of JPY 5 million must be made
- Not a requirement for the applicant to be domiciled in Japan
- Membership in the JIAA or arrangement with the Tokyo Bar Association



Summary of the Requirements For Each FIBO Registration

	Type 1 Financial Instruments Business	Investment Management Business (DIM)	Type 2 Financial Instruments Business	Investment Advisory and Agency Business (IAA)
Personnel Requirements	✓	✓	✓	✓
Minimum Capital / Net Asset Requirements	✓ (Minimum JPY 50 million)	✓ (JPY 50 million) (For Pro-DIM: JPY 10 million)	✓ (JPY 10 million)	N/A Deposit (5 million)
Must be a K.K or branch of a K.K equivalent foreign company	✓ (Board of Directors, Statutory Auditor)	✓ (Board of Directors, Statutory Auditor) (For Pro-DIM: Statutory Auditor only)	N/A	N/A
Limitation on the Side Business	✓	✓	N/A	N/A
Major Shareholder's Requirement	✓	✓	N/A	N/A
Minimum Capital Adequacy Ratio	✓ (120% or more)	N/A	N/A	N/A

Japan Office – Stock Company (K.K) vs. Branch

Determination as to what form of entity to set up in Japan: Stock Company (K.K) vs Branch

Considerations:

1. Type of Activity (Present and Future)
 - Certain FIBO's require a certain form of legal entity
2. Tax Implications
 - Treatment of Performance Bonuses
3. Application of Japanese Law
 - Limited application of the Companies Act to Japan branches
4. Perception
 - Consider the market perception and employee perception



Registering and Setting up a FIBO in Japan

Determination as to what business you want to engage in

Desired Activity	Required Registration
Fund Distribution	Type 1 Dealer, Type 2 Dealer, Securities Sales Intermediary
Discretionary Investment Management	DIM Business
Investment Advice	IAA Business
Intermediary and/or Agency of DIM or IA Mandates	IAA Business
Client Support/Investor Relations	No Registration

The key factor is **What Specific Activity** does the Fund Manager want to do in Japan



Commonly Used Exemptions from Registration

Foreign Securities Firm Exemption

- Allows a foreign securities firm to engage in offshore marketing activities to certain qualified Japan investors

Foreign Manager Exemption

- Allows a foreign entity that engages in a discretionary investment management (or investment advisory) business in home jurisdiction to provide discretionary investment management (or investment advisory) services to a Japan client
- Japan client must be a registered DIM Business (or registered financial institution which engages in an investment management business)

Article 63 Exemption

- Allows the general partner of a limited partnership fund to engage in both (i) self offering activities, and (ii) self-management activities to certain qualified investors



Business and Personnel Considerations in the FIBO Registration

Business Considerations

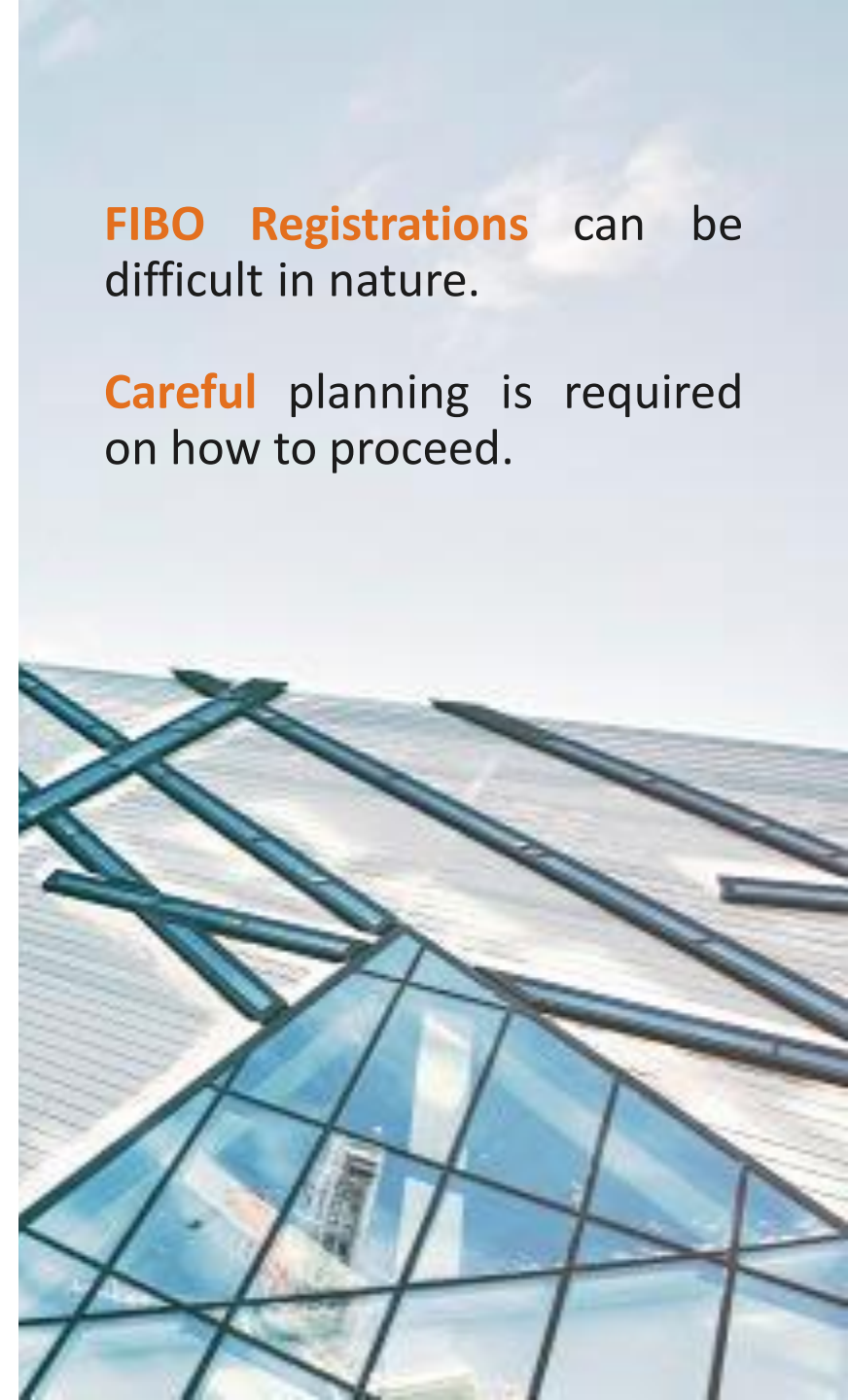
- What is the purpose of the registration?
- Does it make business sense to seek the specific registration?
- Are there other means (i.e. exemptions) by which to achieve the same purpose?

Personnel Considerations

- **The Compliance Officer**
 - Compliance officer most frequently acts as a gating item as this position is technically required for each of the four business registrations
 - Hiring should be made as a priority for any applicant
- **Statutory Auditor**
 - For the DIM Business registration (and Type 1 Dealer), the applicant must appoint a statutory auditor
 - Many are uncertain as to exact role of the statutory auditor

FIBO Registrations can be difficult in nature.

Careful planning is required on how to proceed.



Registration Process for FIBO in Japan

1. Consider applications for the Japan FSA Market Entry Program and/or any subsidy programs
2. Contacting the Japan FSA to commence the application process
3. Pre-Submission Stage
4. Formal Submission
5. Apply to any self regulatory organization that is required to be joined



1(a) Consider registration through the Japan FSA Market Entry Program

- The Financial Services Agency of Japan (“**FSA**”) established the Japan FSA Market Entry Office to attract foreign business and investment managers to Japan
- Ease the overall process for foreign financial institutions seeking a FIBO registration in Japan

Available Registrations through the Japan FSA Market Entry Program

Applicant is seeking to register under any of the following FIBO's:

1. **Certain Type 1 Dealer** – *Type 1 Dealer who operates for professional investors, and only handles certain types of securities*
2. **Certain Type 2 Dealer** – *Type 2 Dealer who (a) will sell interests of an investment trust or certain types of funds established by itself, or (b) will handle interests of an investment corporation that is managed by the applicant in its capacity as the asset management company of such investment corporation, or market interests of an investment corporation/investment trust that is managed by the applicant in its capacity as a Pro-DIM.*
3. **DIM Business**; or
4. **IAA Business.**

The documents and correspondences for registration through the FSA Market Entry Program can all be in English



1(b) Eligibility for Financial Subsidy Programs

The Tokyo Metropolitan Government (“TMG”) Subsidy

- A meeting with the TMG is required before setting up a Japan office

The Japan FSA Subsidy Program

- An applicant can already have a Japan office; however, an applicant will still need to meet the requirements to qualify for the Japan FSA Market Entry Program
- An applicant needs to fall under any one of the following categories:
 1. Is engaged in the same business as the business registration being sought, in a foreign country;
 2. The parent company, subsidiary, or an affiliated company, etc. engages in the same business as the business registration being sought, in a foreign country, or;
 3. Within the applicant entity, there is an individual who is named as a senior officer or an important employee in the application documents, and they have experience as a senior officer or important employee in an entity that engaged in the same business as the business registration being sought, in a foreign country.

Foreign asset managers considering opening an office in Tokyo may apply for **Subsidy Programs**



2. Contacting the Japan FSA to commence the application process

- Submission of materials that briefly summarizes the applicant entity's company history and business plan
- Introductory meeting with the FSA to address their initial questions based on the summary material



3. Pre-Submission Stage

- Preparation and submission of draft application documents for the FSA's review
- Continue to address any additional questions that the FSA may have
- Eventually receive confirmation to proceed with formal submission of the application documents
- Pre-Submission Stage takes 2 to 6 months or more depending on the registration sought and how well the applicant is prepared



4. Formal Submission

- Submission of originals of application documents
- Address any other comments the regulators may have on the application documents
- Initial registration will take 2 months from the submission of the formal application, though it is often much earlier than the standard 2 months



5. Membership in Self-Regulatory Organizations

- Gaining membership in any required self-regulatory organizations – properly confirm what memberships or arrangements may be required
- Please check the membership requirements for the type of business registration being sought
- Cannot commence business until granted membership in the required self regulatory organization (and/or arrangement for ADR processes)



Summary of the Registration Process for FIBO

1. Confirm application of any subsidy programs of the TMG and the Japan FSA Market Entry Program
2. Announce intention with Japan regulators to commence formal application process
3. Pre-Submission Stage
 - Preparation of the application documents
 - Takes 2 to 6 months or more depending on the registration sought
4. Formal Submission
 - Submission of the original documents
 - Minor comments possible
 - The standard processing period is two months (one month for amendment registration)
5. Apply to any self regulatory organizations that is required to be joined



Thank you



Koji Yamamoto

Partner | Tokyo
Investment Management

+81 3 6810 2565
koji.yamamoto@withersworldwide.com



Yoshiyuki Omori

Partner | Tokyo
Investment Management

+81 3 6810 2567
yoshiyuki.omori@withersworldwide.com

Withers Bengoshi Houjin and Withers Gaikokuhou Jimu Bengoshi Houjin are one of a number of affiliated firms and entities ('the firm') which are authorised to use the name 'Withers'. A list of all entities within this group is available at www.withersworldwide.com. The content of this document has been prepared for information purposes only, is intended to reflect the firm's interpretation of the law and legal developments as at the date of publication and may be revised at a later date. This document does not constitute and should not be construed as legal advice from the firm and the provision of it does not create any contractual relationship with any entity. The firm accepts no responsibility nor liability for errors or omissions in this document nor any loss which may result from reliance on any of the information or opinions contained in this document including any actions taken or not taken based on any or all the content save that nothing in this disclaimer excludes or limits any liability which cannot be excluded or limited under applicable law. You should not act or refrain from acting upon this information without seeking professional legal advice.

Withers - 21F JA Building, 1-3-1 Otemachi, Chiyoda-ku, Tokyo 100-6821, +81 3 6810 2560

Global office locations

Hong Kong | Singapore | Tokyo | British Virgin Islands | London | Cambridge | Geneva | Milan | Padua

New York | Boston | Greenwich | New Haven | Texas | San Francisco | Los Angeles | San Diego

withersworldwide
The law firm for success

withers

Taxation

Brajeshwar Banerjee & Daisuke Hasegawa
KPMG Japan

Overview of Contents

Japanese tax consideration is a critical item for many of those considering market entry and relocation to Japan. Here we wish to give you an overview of key Japanese tax topics relevant for fund and asset managers planning to establish operations in Japan or relocate to Japan so that potential tax issues can be identified and suitably addressed prior to such business commencement or relocation.

- Overview of key Japanese corporate tax considerations, such as choice of entity, activities permissible from a tax perspective, entity remuneration and applicable tax rates.
- Overview of key Japanese individual tax considerations, such as residency types, scope of taxable income and preferential tax treatment available for certain elements of individual compensation.
- Practical issues faced by fund managers relocating to Japan and update on recent tax reforms.

Japanese Corporate Tax Considerations: Choice of Entity

(1/3)

- Business in Japan can be conducted through vehicles with different corporate forms
- Main ones relevant for cross border fund or asset management business are:
 - Kabushiki Kaisha (KK), Godo Kaisha (GK), and Branch of a non-Japanese/foreign corporation
- KK and GK are both treated as “corporations” for Japanese tax purposes and taxed in an identical manner.
 - Japanese corporate income tax consists of several elements
 - ✓ Corporation tax (national tax), Business tax (local tax), Prefectural and municipal inhabitant’s tax
 - A Japanese corporation is taxed on all income regardless of source
 - ✓ Effective corporate tax rate varies from approximately **31% to 35%** depending upon the stated / registered capital of the corporation
 - ✓ Tax year (12 months or less) can be determined by the corporation
 - External/statutory audits not mandatory (with some exceptions)
 - A Japanese corporation needs to appoint directors/officers

Japanese Corporate Tax Considerations: Choice of Entity

(2/3)

- Japanese tax laws distinguish between the tax treatment of employees versus directors/officers
 - Bonus payments to directors are generally not deductible (except in certain limited circumstances)
 - ✓ Taxed at individual level and also at corporate level
 - Compared to employees, more restrictive rules apply to directors
 - ✓ Benefits in kind (e.g. company housing),
 - ✓ Retirement allowances

Japanese Corporate Tax Considerations: Choice of Entity

(3/3)

- Branches of foreign corporations are taxable at rates similar to domestic Japanese corporations but there are advantages in using a branch structure:
 - Ease of set up (registration versus incorporation/establishment)
 - Need branch representative to be Japan resident but the individual can be an employee
 - ✓ Restrictive tax rules applicable to directors/officers can be avoided
 - Not be director/officer of the foreign corporation (head office)
 - Deeming rules to be kept in mind (determination based on facts and circumstances)

Japanese Corporate Tax Considerations: Permissible Activities and PE

(1/4)

- A key consideration when establishing a presence in Japan is how to avoid Permanent Establishment (“PE”)
 - PE = Creating a taxable presence in Japan for fund / fund investors / fund manager
 - ✓ Attributable income subject to Japanese taxation
 - ✓ 20.42% withholding tax on distributions with possible tax return filing obligations in Japan
- Relevant types of PE for funds and asset managers
 - Fixed place of business type PE = branch, etc
 - Agent type PE = Person with authority to habitually conclude contracts in Japan on behalf of the foreign principal or those playing a principal role leading to the conclusion of contracts that are not materially modified by the foreign principal
- Tax treaty and domestic tax law definitions of PE
 - Broadly similar but treaty definitions may have a slightly different nuance
 - Tax treaty definition should take precedence over domestic tax law definition but...

Japanese Corporate Tax Considerations: Permissible Activities and PE

(2/4)

➤ Ways to mitigate PE exposure

- Limit the scope of activity and authority of the person(s) assigned to Japan
 - ✓ Operate as a sub-advisor to the fund / investment manager
 - ✓ Change approval protocols, IC-memberships, etc if required
 - ✓ Establish clear dos and don't's
 - ✓ Ensure proper communications protocol and maintain appropriate document trail
 - ✓ Ensure entity in Japan is properly remunerated

Japanese Corporate Tax Considerations: Permissible Activities and PE

(3/4)

- Apply for “qualified investor” exemption for fund investors
 - ✓ FSA-led initiative in 2008/2009
 - ✓ Applicable to limited partners in a partnership
 - ✓ Limited partner not involved in daily operations/management
 - ✓ Limited partner not related to GP
 - ✓ Limited partner holding less than 25% interest in the partnership
 - ✓ Limited partner not with another PE in Japan (due to other businesses)

Japanese Corporate Tax Considerations: Permissible Activities and PE

(4/4)

- Avail of the “independent agent” exemption
 - ✓ FSA-led initiative in 2008/9 and rules updated in 2019
 - ✓ Need to have legal, economic and business independence
 - ✓ Especially suited to Discretionary Investment Managers (DIM) in Japan, where DIM
 - Receives no detailed instruction from fund GP / foreign investment manager
 - Has no majority of shared officers with fund GP / foreign investment manager
 - Is appropriately compensated
 - Can diversify business / bears entrepreneurial risk
 - ✓ FSA has published guidelines and case studies

➤ **Key message – Don’t let PE keep you away from Japan**

Japanese Corporate Tax Considerations: Entity Remuneration

➤ Entity Remuneration

- Cost plus mark up
 - ✓ Applicable for initial phase and for auxiliary-type services on an ongoing basis
 - ✓ Level of mark up should be based on benchmarking study, but rule of thumb is 10%
 - ✓ Cost base should include Japan and overseas (non-Japan) costs related to Japan
- Profit split or remuneration based on AUM / transaction volumes, etc.
 - ✓ Appropriate remuneration method should be based on functional analysis
 - ✓ Remuneration should be commensurate with functions
 - ✓ Benchmarking based on comparable companies
 - ✓ Consistent with group or global transfer pricing policies
- Future tax audit activity more likely to focus on entity remuneration and transfer pricing

Japanese Corporate Tax Considerations: Applicable Tax Rates

Japanese companies/branches are subject Japanese corporation tax on net taxable income at the following rates:

Tax	Companies with stated capital in excess of JPY 100 million	Companies with stated capital of JPY100 million or less
Corporation tax	23.2%	23.2%
Business tax ⁽¹⁾	1.18%	7.48%
Special business tax	2.6% (1.0% x 260%)	2.59% (7.0% x 37%)
Inhabitant tax	2.413% (23.2% x 10.4%)	2.413% (23.2% x 10.4%)
Local corporation tax	2.390% (23.2% x 10.3%)	2.390% (23.2% x 10.3%)
Total	31.783%	38.073%
Effective statutory tax rate ⁽²⁾	30.62%	34.59%

⁽¹⁾ Companies with stated capital in excess of JPY100 million are subject to size-based business tax which is not shown.

⁽²⁾ The effective statutory tax rate is calculated by reflecting the tax-deductible nature of business tax and special business tax.

Japanese Individual Tax Considerations: Residency Types and Scope of Income

➤ Other than non-residents and short-term visitors, there are two types of residents for Japanese individual tax purposes -

1. Non-permanent resident

- ✓ Without Japanese nationality
- ✓ Has lived in Japan for 5 years or less over the last 10 years.

Subject to Japanese income and inhabitant taxes on

- ✓ Japan sourced income, and
- ✓ Foreign source income paid in or remitted to Japan

2. Permanent Resident

- ✓ A resident other than a non-permanent resident

Subject to Japanese income and inhabitant taxes on

- ✓ Worldwide income

➤ Compensation planning opportunities, especially for non-permanent residents, exist

Japanese Individual Tax Considerations: Applicable Tax Rates

The following progressive tax rates are applied to the net of assessable ordinary income minus allowable deductions and personal reliefs.

In addition to national income tax shown, an individual is subject to inhabitant's tax consisting of nominal per-capita levy and **10%** income levy regardless of income amount.

Taxable income (JPY)		National income tax rate applicable to taxable income band	Deduction
From	But not over		
-	1,950,000	5%	-
1,950,000	3,300,000	10%	97,500
3,300,000	6,950,000	20%	427,500
6,950,000	9,000,000	23%	636,000
9,000,000	18,000,000	33%	1,536,000
18,000,000	40,000,000	40%	2,796,000
40,000,000	-	45%	4,796,000

Japanese Individual Tax Considerations: Individual Compensation Elements

(1/2)

- Japan individual tax rate (55%+ marginal rate) gets headlines but effective tax rate can be lower due to -
 - For non-permanent residents
 - ✓ Foreign paid salary (e.g. salary/bonus paid by offshore entity) is taxed proportional to business days spent in Japan
 - ✓ Investment income (dividends, interest, etc) on assets acquired prior to becoming a Japan resident is not taxable unless remitted to Japan
 - ✓ Reasonable relocation or moving expenses are not taxable in the hands of employees

Japanese Individual Tax Considerations: Individual Compensation Elements

(2/2)

- For permanent and non-permanent residents
 - ✓ If local entity has a valid company housing plan, up to 90% of the rent paid by employer can be a non-taxable benefit in kind to an employee
 - ✓ If local entity makes a donation to certain qualifying international schools, children of certain employees of the entity can be exempt from paying tuition fees and the benefit is not taxable in the hands of the employee
 - ✓ If local entity has a valid company car policy, company car used for business can be not taxable in the hands of the employee
 - ✓ Standard and dependent deductions

➤ **Key message - Your effective tax rate may be lower than you think!**

Some Practical Tax Questions on Relocating to Japan

- Branch versus subsidiary – Should we set up a branch or a subsidiary?
- Director versus employee - Should I be a director?
- Organizational changes – Should I resign from or modify my current roles and responsibilities?
- Split payroll – Can this apply to me and how will it be administered? What exchange rate should apply?
- Credit cards – Can I use my foreign credit cards?
- Housing – Can the local entity implement a company housing plan?
- Car – Can the local entity implement a company car plan?
- Tax return filing – How complicated is it?

2021 Tax Reform Relevant for Fund Managers

- Clarification of income categorization of “carried Interest” for fund managers
 - FSA initiative led to tax reforms in 2021
 - Earlier, there was a lack of clarity on how carried interest distributed to fund managers in Japan should be taxed, i.e. should they be treated as bonuses (subject to comprehensive taxation at rates up to 55%+) or as gains (subject to separate taxation at approximately 20%)
 - Tax reform clarified that carried interest to fund managers can be treated as gains if certain conditions are met. Some of these are:
 - ✓ Fund manager should receive carry in the form of a special fund allocation (i.e. be “special limited partner” in the fund)
 - ✓ Carried interest allocation should have economic rationale
 - ✓ Arrangement should be disclosed to other fund investors
 - ✓ Schedule on carried interest computation to be attached to individual income tax return

Thank You!



Brajeshwar Banerjee (Ban)

Partner

KPMG Tax Corporation

+81 (0)3 6229 8211

brajeshwar.banerjee@jp.kpmg.com

Daisuke Hasegawa

Partner

KPMG Tax Corporation

+81 (0)3 6229 8241

daisuke.hasegawa@jp.kpmg.com

KPMG in Japan acts as Financial Statement Auditor for Tricor. Any representatives from KPMG in Japan are appearing here as subject matter experts for the information discussed. KPMG's participation and contribution in this regard is not an endorsement, sponsorship or implied backing of Tricor's products or services.

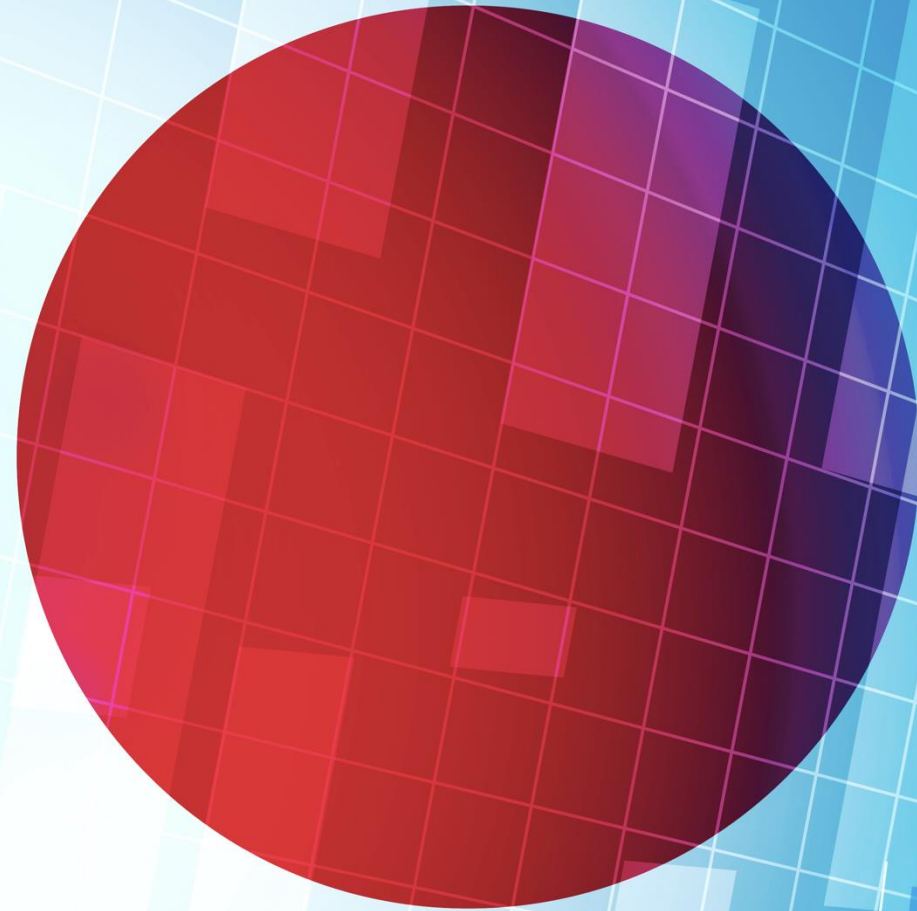
ここに記載されている情報はあくまで一般的なものであり、特定の個人や組織が置かれている状況に対応するものではありません。私たちは、的確な情報をタイムリーに提供するよう努めておりますが、情報を受け取られた時点およびそれ以降においての正確さは保証の限りではありません。何らかの行動を取られる場合は、ここにある情報のみを根拠とせず、プロフェッショナルが特定の状況を綿密に調査した上で提案する適切なアドバイスをもとにご判断ください。

© 2022 KPMG Tax Corporation, a tax corporation incorporated under the Japanese CPTA Law and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Japan Wants You

Scott Sato
Tricor Japan



Tailwinds for Overseas Asset Managers in Japan

tricolor



In general:

- **3rd** largest economy in the world
- GDP of **JP¥560 trillion** (US\$5.15 trillion)
- Well-established infrastructure supports approximately **1,500** financial institutions

If you raise assets:

- **3rd** largest pension market in the world
- Financial assets held by households worth more than **JP¥2,000 trillion** (about US\$15 trillion)
- Assets under management have increased **2x** over the past decade

If you invest:

- **30%** of publicly-listed stocks are possessed by non-residents
- Investment in start-ups increased **10x** over the past decade

Sources:

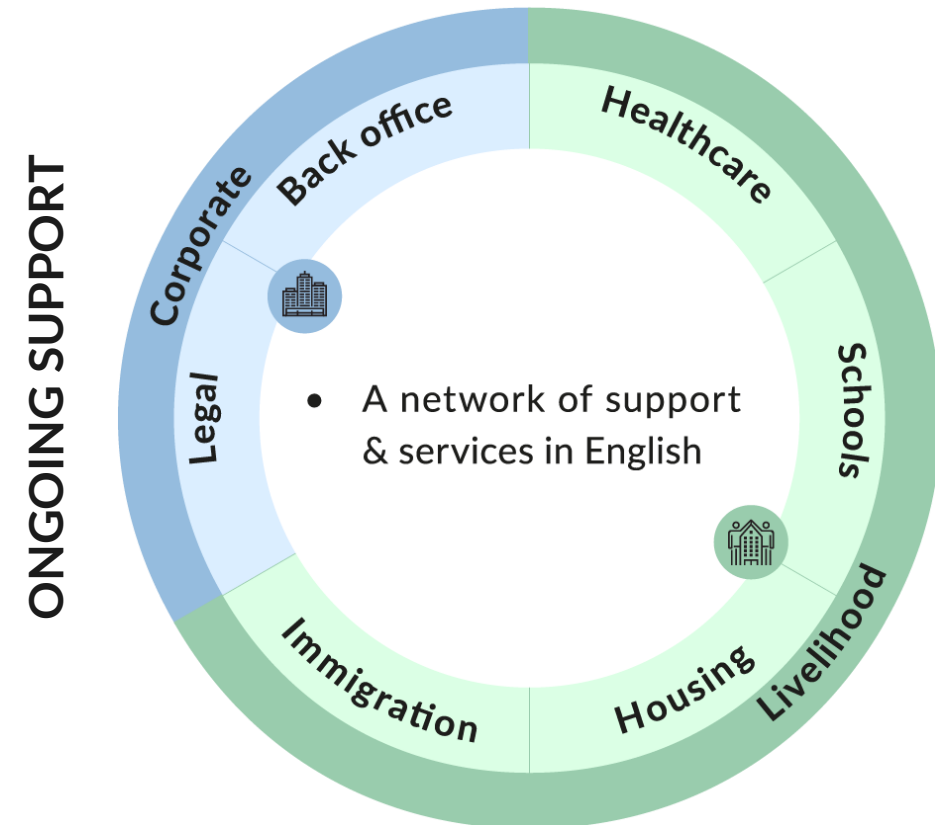
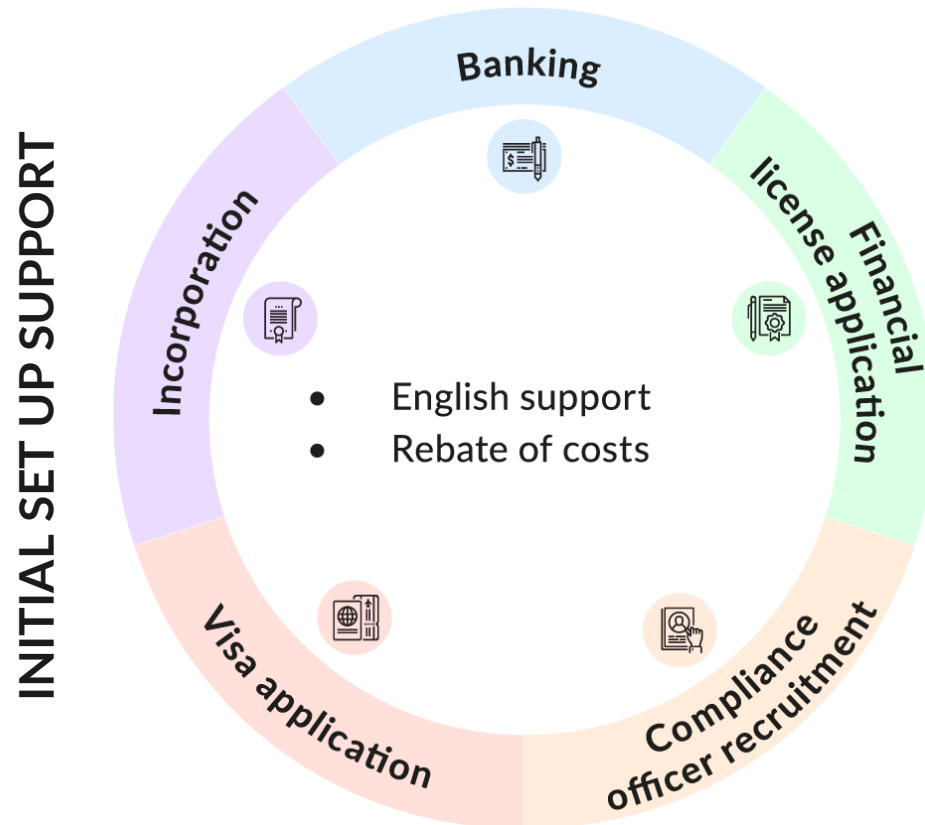
'Advancing Japan's Status as a Global Financial Hub', Kizuna, The Government of Japan, May 28, 2021.

'Japan as an International Financial Center', Financial Services Agency, (Accessed June 16, 2022).

Financial Start-up Support Program

tricolor

The Financial Start-up Support Program is one-stop solution for foreign asset managers looking to enter the Japanese market.



Eligibility - Who Can Apply?

tricolor

Successful applicants must fulfil both of the following categories (a) and (b)

(a) Applicant who falls under either of the following categories

- ① Applicant who is engaged in the business described in items (i) and (ii) below in a foreign country respectively for the categories set forth in item (i) and (ii).
 - (i) Applicant wishing to register for Type 1 Financial Instruments Business: Same kind of business as Type-I Financial Instruments Business
 - (ii) Applicant wishing to register for the business listed in (b)②-④: Same kind of business as Investment Advisory and Agency Business or Investment Management Business
- ② Parent company, etc., subsidiaries, etc., or affiliated companies, etc. of an entity engaged in business prescribed in ①
- ③ Applicant who has worked in an entity engaged in business prescribed in ① as a senior officer or employee (i.e. where he/she is named as a senior officer or an important employee in the application documents)

(b) Application for either of the following types of business under the Financial Instruments and Exchange Act ("FIEA")

- ① Type-I Financial Instruments Business*1 (Article 28(1) of the FIEA)
- ② Investment Management Business (Article 28(4) of the FIEA)
- ③ Investment Advisory and Agency Business (Article 28(3) of the FIEA)
- ④ Type-II Financial Instruments Business relevant to asset management business in either of the following cases
 - (i) where selling a beneficial certificate of an investment trust or a fund established by itself (Article 28(2)(i) of the FIEA)
 - (ii) where conducting a so-called Deemed Type-II Financial Instruments Business operated by Asset Management Company of an Investment Corporation or an operator of Investment Management Business for Qualified Investors (Article 196(2) of the Act on Investment Trusts and Investment Corporations and Article 29-5(2) of the FIEA)

*1 Type-I Financial Instruments Business that is conducted for professional investors and in which the securities handled are only certain securities, such as beneficiary certificates of foreign investment trusts and foreign investment securities.



Note: If you are eligible, please fill out the application form. You will be contacted by Tricolor Japan after submitting the application form. At the end of the process, JFSA will determine whether you are eligible for this program or not.

Q&A Session



Upcoming Webinars

tricolor

MARKET EXPANSION WEBINAR SERIES: NEW BUSINESS OPPORTUNITIES IN JAPAN FOR OVERSEAS ASSET MANAGERS 2022

Part 3: Company Set-up, Recruitment, Immigration & Relocation October 5, 4PM (JST/GST+9)

- Guest Speakers: Robert Walters, EY, Japan Transfer
- Incorporation, bank account opening
- Highly-Skilled Foreign Professional visas
- Open borders & immigration rules
- Relocation services
- and more...



Part 4: International Schools November 10, 4PM (JST/GST+9) English November 17, 4PM (JST/GST+9) Japanese

- Guest Speakers: International education media, International School Times & eduJUMP!
- Difference between the two major international education programs:
International Baccalaureate and Cambridge A Levels
- Pre-schools, kindergartens, international schools, boarding schools
- and more...



Get in touch with us to learn more

tricolor



International Financial Center Japan
fsa.go.jp/internationalfinancialcenter/en

Financial Market Entry Office
marketentry@fsa.go.jp

tricolor



**Financial Support Team
Tricolor Japan**
financialsupport@jp.tricorglobal.com
www.tricorglobal.com



Thank you for attending

Disclaimer

This publication is intended to provide only general information. It does not purport to be comprehensive or constitute professional advice, and should not be relied upon as such. Changes in law or circumstances may occur after the issue date, which may make information contained in this publication no longer accurate. All and any liability which might arise from this publication is hereby expressly excluded. Neither Tricolor Group, Withers, KPMG, Japan Financial Services Agency, nor any of their affiliated group companies shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

