

# Japan: Inbound Tax Alert

## Residency Requirement - Eliminated

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On March 16, 2015, Japan's Ministry of Justice announced that it abolished the local residency requirement that at least one of the representatives of a domestic corporation should have a Japanese address, which often complicated the corporate formation process for overseas entrants into Japan. The change became effective immediately.

### Previous treatment

Previously, a Japanese company formed as a kabushiki kaisha (the equivalent of a stock company) was required under Japanese law to appoint from among its directors at least one individual who was a resident of Japan to serve as the company's representative director or local representative based on the pronouncements from the Japanese Civil Affairs Bureau. Similarly, a godo kaisha (the equivalent of a limited liability company) that had an entity serving as its sole managing member was required to select one individual who was a resident of Japan to serve as an executive officer to perform the duties of the managing member.

### Current treatment

Based on this reform, a company can be organized under Japanese law without the need to satisfy a Japanese corporate law local residency requirement. The elimination of the local residency requirement will apply to legal entities that are to be incorporated or established. Examples of these types of legal entities include kabushiki kaishas, godo kaishas and the general partner of a toshi jigyou yugen sekinin kumiais. On the other hand, it should be noted that the elimination of local residency requirements will not apply to the requirement to appoint a tax representatives for foreign companies with a PE in Japan since Japanese corporate law still requires that at least one tax representative of foreign companies should be a resident in Japan.



### Deloitte's View

**The elimination of local residency requirements should be welcomed by overseas companies that desire:**

- flexibility to utilize overseas personnel to serve as leaders of its Japan subsidiary,
- time to hire or replace local talented personnel as leaders of its Japan subsidiary, and
- direct oversight to its Japan subsidiary through online or other communication tools.

**Under Japanese tax law, tax returns should be signed by the representative of a company to verify the detail of tax returns. Therefore, this procedure would still be required to be appropriately performed if the representative is not a resident of Japan.**

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