



June 2025

Japan HR Guide

APO-Social Insurance Consultants Corporation



1. Hiring

Employment Contract

When hiring a new employee, an employer must enter into an employment contract that clearly outlines the working conditions. Mandatory items to be included are:

- Workplace: The initial location and scope of possible future changes
- Duties: The initial responsibilities and scope of potential future changes
- Working hours and conditions: Start and finish times, break periods, holidays and leave, wages, termination, etc.

For fixed-term employees, the contract must also specify whether it is renewable, any limits on renewal, and the process for converting to an indefinite-term contract.

If any part of the employment contract contravenes the working conditions stipulated in the work rules (described later) that portion is considered invalid. In such cases—and for any matters not specified in the contract—the work rules shall apply.

Probationary Period

Many Japanese companies set a probationary period during which they assess whether to offer full employment. This period, typically lasting three to six months, counts toward the employee's total length of service.

Work Rules

It is important for every business, regardless of size or field, to provide a pleasant and safe work environment. Establishing work rules that clearly define the terms and conditions of employment as well as standards for treatment—including working hours, wages, retirement, and dismissal—is essential for preventing disputes between employers and employees.

In addition to these mandatory items, companies may include various policies, such as rules pertaining to personnel, duties, confidentiality, protection of confidential information and intellectual property, and restrictions on post-employment competition.



While employers can establish their own work rules, they should not violate any relevant laws and regulations. Companies with 10 or more employees are required to prepare written work rules and submit them to the Labor Standards Inspection Office, along with an opinion letter signed by the employee who represents a majority of all employees.

2. Working Hours, Holidays, and Leave

Statutory Working Hours

Under the Japanese Labor Standards Act (LSA), employees may not be required to work more than 40 hours per week or more than eight hours per day, excluding break time. Breaks must be no less than 45 minutes when working more than six hours and at least one hour when working more than eight hours. Employers must also grant one day off per week or four days off in any four-week period. These days off are referred to as statutory holidays (*hotei kyujitsu*). The law does not require that these statutory holidays fall on Saturday or Sunday. Other days may be specified by the employer.

However, the employer may ask employees to work overtime or on holidays if a labor-management agreement—known as a “36 Agreement,” because it is based on Article 36 of the LSA—has been signed by the employee who represents a majority of employees and filed with the Labor Standards Inspection Office.

The legal limit for overtime is 45 hours per month and 360 hours per year, excluding holiday work. In special cases, overtime hours may be extended up to 720 hours per year. Premium pay for overtime and holiday work ranges from 125% to 160%, depending on the circumstances.

Overtime Exemption

Employees in managerial or supervisory positions are exempt from regulations on overtime, break time, and holiday work. As such, they are not entitled to overtime pay. The only exception is compensation for night work between 10:00 p.m. and 5:00 a.m. Between these hours, 25% of normal wages should be paid.

Annual Paid Vacation

The LSA requires an employer to grant 10 days of paid leave each year to employees who have worked continuously for six months. The number of days granted increases with continued service per the following schedule:

Years of employment	0.5	1.5	2.5	3.5	4.5	5.5	6.5+
Days granted	10	11	12	14	16	18	20

To qualify, employees must have worked at least 80% of their scheduled days in the preceding year. Unused leave can be carried over to the following year but expires after two years. Employers are prohibited from buying out the unused leave during employment. However, buyout is allowed at the time of termination. Whether or not to do so is up to company policy; it is not stipulated by law.

Maternity Leave

Female employees are entitled to maternity leave starting six weeks before and continuing to eight weeks after childbirth. The pre-birth leave is granted upon request, while post-birth leave is mandatory, regardless



of the employee's wishes. However, the post-birth period may be shortened to six weeks with a doctor's approval. During maternity leave, cash benefits are provided through Health Insurance, and both employee and employer are exempt from social insurance contributions.

Childcare Leave

Employees may request a leave of absence to care for a child until the child turns one year old. The period can be extended up to the child's second birthday if certain conditions are met. An employer cannot refuse to provide leave for the requested period, but it is up to the company whether or not the leave is paid. If the leave is unpaid, a cash benefit is provided through Employment Insurance. Childcare leave is also available to male employees, and both the employee and employer are exempt from social insurance contributions during this period.

Childcare Leave at Birth (Paternity Leave)

Employees who are not on post-delivery maternity leave may apply for up to four weeks of childcare leave within eight weeks after childbirth, commonly called "paternity leave." A cash benefit is provided through Employment Insurance when the leave is unpaid. Both employee and employer are exempt from social insurance contributions during the leave if certain conditions are met.

Family Care Leave

When a family member needs constant care for two weeks or more due to injury, sickness, or physical/mental disability, an employee is entitled to request family care leave, provided certain conditions are met. The maximum leave allowed is 93 days per family member. If the leave is unpaid, a cash benefit is provided through Employment Insurance.

3. Salary and Tax

Withholding System

Employers are required to withhold income tax from employees' monthly salaries based on tax rate tables and remit the amounts to the tax office by the 10th of the following month.

Although tax is withheld monthly, the final amount due is calculated based on the employee's annual taxable income. The balance between the withholding tax paid throughout the year and the final tax amount due is adjusted in the December salary payment. This procedure, called year-end tax adjustment, is obligatory for employers.

If an employee's annual salary exceeds ¥20 million, he/she must file an individual tax return. Employers should report annual withholding tax information to the tax office by January 31 each year.

Inhabitant Tax

In addition to income tax, payroll deductions include individual inhabitant tax and social insurance premiums. Individual inhabitant tax is imposed on a resident who has a domicile in Japan as of January 1 and is levied on the income earned in the previous year. The municipal office calculates the individual inhabitant tax and issues a statement to the employer no later than May 31 of that year. The employer is then required to withhold the individual inhabitant tax over 12 months from June to May of the following year. Payments of the withholding inhabitant tax must be made by the 10th of each following month.



4. Social Insurance

Outline of Four Types of Employee Social Insurance

Japan's social insurance system for employees is composed of Social Insurance comprising Health Insurance and Welfare Pension Insurance, and Labor Insurance comprising Employment Insurance and Worker's Accident Compensation Insurance. The four schemes may be collectively referred to as Social Insurance. Non-Japanese employees are also covered by each scheme.

Officers and Part-time Employees

Company officers are also covered by the Health Insurance and Welfare Pension Insurance, but not Employment Insurance and Worker's Accident Compensation Insurance. Part-time employees with reduced working hours may be covered by all four schemes if certain conditions are met.

Health Insurance

Employees and their dependent family members are eligible to receive medical treatment at 30% of the actual cost. A family member who lives outside Japan is not eligible.

There are also cash benefits for events such as childbirth, death, and unpaid leave due to non-work-related injury or illness.

Employees aged 40–64 who are covered by Health Insurance are also required to contribute to Nursing Care Insurance, a government program that supports elderly care.

Welfare Pension Insurance

Welfare Pension Insurance provides retirement benefits to employees when they reach age 65. It also offers a pension or lump-sum payment in cases of disability, and survivor benefits—either as a pension or a lump-sum payment—to eligible survivors when an employee dies.

Employers are required to contribute to the Children's Welfare Fund, a government-run plan that supports child welfare initiatives.

Employment Insurance

Employment Insurance provides unemployment benefits and support services for individuals who lose their job and wish to find a new one. It also provides benefits for existing employees who are on childcare or family-care leave without pay.

Workers' Accident Compensation Insurance

Workers' Accident Compensation Insurance provides benefits to employees who fall ill, are injured, or die while working or commuting to or from work. Benefits are provided in the form of a pension or lump-sum payment, depending on the seriousness of the injury or illness.

Premium Rates

Social Insurance premiums are shared by employer and employees nearly equally. The employer's total contribution—covering both salary and bonus—is about 16%.



Lump-sum Withdrawal Payment

Non-Japanese nationals may claim a Lump-sum Withdrawal Payment within two years of losing their insured status under the Welfare Pension system—typically the date they no longer have an address in Japan. This applies to individuals who have contributed for six months or more and have never had the right to receive a pension, including disability allowance. This payment is taxable.

Social Security Agreements

As of April 2025, Japan has concluded social security agreements with 23 countries. These agreements include the elimination of dual coverage in home and host countries and the totalization of pension coverage periods.

Please note that four agreements—with the United Kingdom, South Korea, Italy, and China—cover only the elimination of dual coverage. This prevents individuals from being required to make social security contributions in both countries at the same time.

5. Retirement and Dismissal

Retirement

Mandatory Retirement

There is no statutory retirement age in Japan. The law only stipulates that companies cannot set an age below 60.

Guidance dates back to 1971 and the enactment of the Act of Stabilization of Employment of Elderly Persons, which has been revised multiple times in response to changing labor dynamics as society ages. The minimum age of 60 was set in the 1994 amendment (enacted in 1998).

Since 2006, companies have been legally required to adopt some method to ensure continued employment until age 65—such as raising or abolishing the retirement age, rehiring retirees, or offering a system of continuous outsourcing contracts. An amendment that went into effect in 2021 stipulates that employers should make such efforts up to age 70. This is not mandatory requirement by the law.

Dismissal

Ordinary Dismissal

In principle, employers have the right to dismiss an employee for reasons of physical or mental incapacity, lack of skills, poor performance, misconduct, or business necessity. However, it is not easy to do so in Japan. Unless the dismissal is based on objective and rational grounds that would be considered socially acceptable, it may be deemed an abuse of rights and be ruled invalid.

Grounds for dismissal are typically outlined in the company's work rules. The LSA requires an employer to provide 30 days' notice or a 30-day payment in lieu of notice to dismiss an employee.



Encouraged Voluntary Resignation

Dismissal is a very difficult way to terminate employment. To avoid such a situation, employers often encourage voluntary resignation as an alternative. In some cases, a special separation package is offered as an incentive. When the employee agrees to resign, it is important to prepare a written separation agreement signed by both parties to help prevent future disputes.

Disciplinary Dismissal

Disciplinary dismissal is the most serious form of disciplinary action. Grounds may include neglect of duties, violation of workplace disciplines, or breach of company rules and regulations. These grounds should be clearly stated in the work rules.

As with ordinary dismissals, the rationale and necessity must be considered on a case-by-case basis. Disciplinary dismissal can take effect immediately, though the law still requires that the employer give 30 days' notice. If the employer applies to the labor authority for approval of an immediate dismissal and the application is granted, the employee may be dismissed without notice.

Retirement Payments

Retirement Allowance

It is customary in Japan for companies to pay a retirement allowance when an employee resigns or retires, although this is not required by law. The amount is typically based on the employee's length of service and salary level. The company's work rules must clearly define the terms of the retirement allowance.

Retirement allowance is classified as retirement income for tax purposes and is usually reported separately from other income on the tax return. However, if the company withholds tax at the time of payment and files a retirement income payment report, the employee is not required to file an individual tax return for that income. In addition, there is no withholding of social insurance premiums from retirement income.

Buyout of Unused Annual Paid Vacation

If a company buys out unused annual paid vacation when an employee leaves the company, the amount is treated as part of the retirement allowance and taxed as retirement income.

Other Severance Pay

In some cases, a company may make an additional retirement payment on top of the scheduled retirement allowance. Such payment attributed to termination from a company is taxed as retirement income.

Payment in Lieu of Notice

If a company provides payment in lieu of notice for dismissal, the amount is treated as retirement income and subject to the retirement tax rate.