Capital and Tax Consequences

Under Japanese tax law, tax consequences depend on the amount of share capital.

1. Corporate tax consequence

	Non-Small and Medium-Sized Enterprises (Non-SMEs)*	Small and Medium-Sized Enterprises (SMEs)*
Corporate tax rate	23.2%	The reduced tax rate is applied to annual taxable income of ¥8 million or less. 15% (or 19%)
Deductible amount of tax loss carryforwards	Tax deductibility is limited to 50% of taxable income for a fiscal year.	The full amount of taxable income for a fiscal year is deductible.
Reserve for bad debts	Not deductible at all.	Deductible up to the amount calculated by the statutory rate for bad debts reserve.
Entertainment expenses with business partners (The rule is not applied for small entertainment expenses of ¥10,000 or less per person.)	Basically, entertainment expenses are non-deductible for non-SMEs. However, one half of food and beverage costs are deductible if share capital is ¥10 billion or less at the end of the fiscal year.	Fully deductible up to ¥8 million. OR One half of the cost of food and beverages with business partners.
Tax on retained earnings of family corporation	Applicable	Not applicable

*SMEs and Non-SMEs

Small and medium-sized enterprises (SMEs) are defined as corporations whose share capital is ¥100 million or less at the end of the fiscal year, and which are not ultimately controlled by a large corporation with share capital of ¥500 million or more.

Non-SMEs refers to all corporations other than SMEs.

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2. Consumption tax liability for a newly established corporation

A newly established corporation with share capital of ¥10 million or more on the first day of the fiscal year is subject to consumption tax filing. A newly established corporation whose share capital on the first day of the fiscal year is less than ¥10 million is also required to file consumption tax if it is held by a corporation that meets the following conditions:

- Taxable sales in the base period exceed ¥500 million or;
- Sales, revenue, and all other income—including offshore income—exceed ¥5 billion.

3. Local tax

Large corporations with more than ¥100 million share capital (for KK) or equity capital (for GK and others) at the end of the fiscal year are subject to the factor-based enterprise tax. The extra corporate inhabitant tax per capita is levied based on the company's paid-in capital (share/equity capital + additional paid-in capital) amount and the number of employees.

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