



2011/07/28

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Tax Guide
for the Acquisition, Lease, and Sale
of Real Estate in Japan
by Non-Resident Individuals

2011

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1 Tax Guide for Acquisition

1.1 Registration Tax

A registration tax is levied when an entry is made in official books with regard to property rights.

1.1.1 Building

1.1.1.1 Acquisition by Purchase

$$\text{Tax amount} = (\text{Assessed value of building}^{*1}) \times 2\%^{*2}$$

*1 The value is assessed by the local government. The percentage of the price of the valuation is approximately between 50% and 70%. The buyer can learn the assessed value of the property by acquiring a copy, from the seller, of the valuation certificate issued by the local government.

*2 The 0.3% rate is applicable when individuals purchase certain housing as their own residence.

1.1.1.2 Acquisition of Newly Built Housing (First Entry of Housing)

$$\text{Tax amount} = (\text{Assessed value of building}^{*1}) \times 0.4\%^{*2}$$

*1 The value of tax is assessed by the registration agency. The Tokyo registration agency uses the data presented in the table below to assess the valuation.

	Condominiums	Stores and Offices
Wooden buildings	¥67,000/m ²	¥57,000/m ²
Light-gauge steel construction buildings	¥70,000/m ²	¥57,000/m ²
Steel construction buildings	¥84,000/m ²	¥84,000/m ²
Reinforced concrete buildings	¥108,000/m ²	¥114,000/m ²
Steel-reinforced concrete buildings	¥112,000/m ²	¥157,000/m ²

*2 The 0.15% rate is applicable when individuals purchase certain housing as their own residence.

1.1.2 Land

$$\underline{\text{Tax amount} = (\text{Assessed value of land}^*) \times 1.3\%}$$

* The value is assessed by the local government. The percentage of the price of the valuation is approximately between 50% and 70%. The buyer can learn the assessed value of the property by acquiring, from the seller, a copy of the valuation certificate issued by the local government.

1.2 Real Estate Acquisition Tax

A real estate acquisition tax is imposed when individuals purchase real estate. A notification of tax due is sent from the local tax office approximately three months after the acquisition.

1.2.1 Building

1.2.1.1 Non-housing Building

$$\underline{\text{Tax amount} = (\text{Assessed value of building}^*) \times 4\%}$$

* Please refer to 1.1.1.1 *1.

1.2.1.2 Housing*1

$$\text{Tax amount} = \frac{\{(\text{Assessed value of building}^{*2}) - (\text{Specific housing deduction}^{*3})\} \times 3\%}{}$$

*1 Second housing units (not including resort houses that serve as residences for less than one day per month) and rented housing units are included.

*2 Please refer to 1.1.1.1 *1.

*3 A specific housing deduction is applicable to certain newly built housing units or used housing units for personal residence, as mentioned below.

(1) Newly built housing

¥12 million per housing unit can be deducted when the floor area of the newly built housing meet the criteria specified in the following table. Proportionally divided common-use floor space (e.g., corridors or stairs) is added to an exclusive residential space.

	Lower limit		Upper limit
	Detached housing units	Housing units other than detached housing units	
Housing units other than rented housing units	50 m ² or more	50 m ² or more	Up to 240 m ²
Rented housing units		40 m ² or more	

(2) Used housing units for personal residence

¥12 million per housing unit can be deducted when the following conditions (A–C, inclusive) are met.

(A) The owner acquired it as personal residence

(B) The floor area of the housing unit is not less than 50 m², up to 240 m²
Proportionally divided common-use floor space (e.g., corridors or stairs) is added to an exclusive residential space.

(C) The housing unit was built on or after January 1, 1982

1.2.2 Land (Building Lot)

Tax amount = (Assessed value of land*1) × 1/2 × 3% – Specific housing tax deduction*2

*1 Please refer to 1.1.2 *

*2 When the land covered under that specified in section 1.2.1.2 *3 (1) or (2) is acquired, the following amount is deducted:

(Assessed value of land per 1 m²) × 1/2 × (Twice the floor area of the housing [up to 200 m² per housing]) × 3%

1.3 Stamp Duty

A stamp duty is imposed when individuals sign a sales agreement. The amount of stamp duty varies with the price of the real estate, as presented in the following table.

Price of the real estate		Amount of stamp duty
Over	Not over	
¥10,000,000	¥50,000,000	¥15,000
¥50,000,000	¥100,000,000	¥45,000
¥100,000,000	¥500,000,000	¥80,000
¥500,000,000	¥1,000,000,000	¥180,000
¥1,000,000,000	¥5,000,000,000	¥360,000
¥5,000,000,000		¥540,000

1.4 Consumption Tax

A consumption tax is included in the price of the building (but not included in the price of the land). The consumption tax rate is 5%.

1.5 Unexpired Real Estate Tax

Real estate tax is payable by individuals who are registered as owners of real estate as of January 1 each year. Individuals must pay the unexpired real estate tax to the seller when they acquire real estate in the middle of a year.

2 Tax Guide for the Lease

2.1 Income Tax

2.1.1 Income Tax Liability

Non-residents who receive rental proceeds from real estate located in Japan are subject to income tax. They are required to file their income tax return for the calendar year to the relevant tax office between February 16 and March 15 of the following year, and pay the tax amount by the filing deadline. If a non-resident applies for an automatic bank transfer, the actual fund transfer occurs around mid-April.

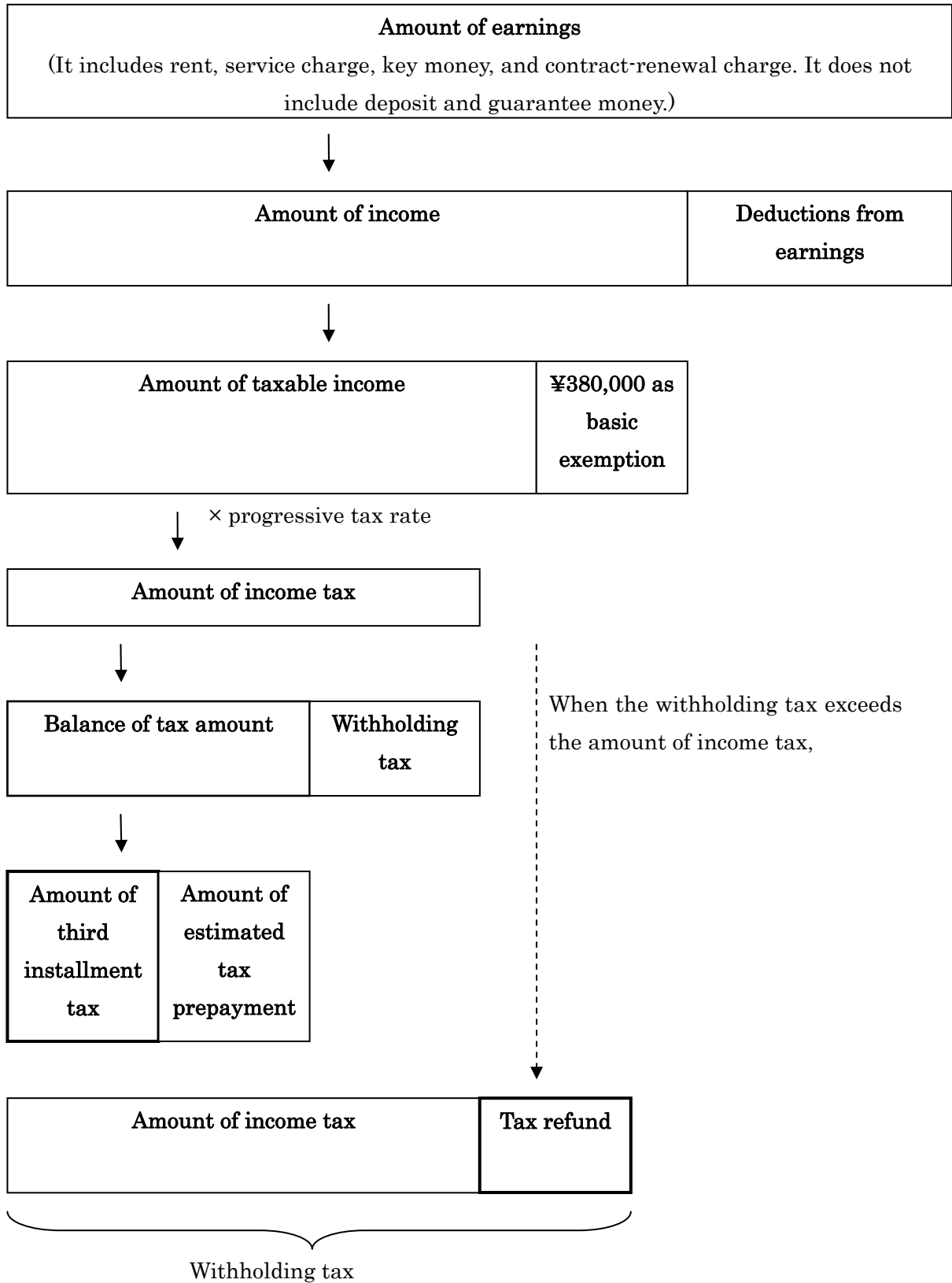
Non-residents in Japan must appoint a tax manager (nouzei-kanrinin) who can deal with their tax-related matters in Japan. Generally, they appoint a certified public tax accountant or a certified public tax firm as their tax manager.

2.1.2 Withholding Tax

Income tax at the rate of 20% is withheld when non-residents receive rental proceeds, except from individuals who rent real estate as their personal or relatives' residence.

The withholding tax is fully creditable against the amount of income tax when the taxpayer declares such income on a tax return. When the balance of the tax amount is in deficit, non-residents can receive a refund on filing a tax return.

2.1.3 Structure of Income Tax



2.1.4 Deductions from Earnings

Deductions from earnings include tax, public charge, rental agent's commission, insurance due, repair cost, depreciation expense, interest on liabilities, and special exemption for blue return.

2.1.5 Depreciation

The depreciation of buildings (not including lands) should be calculated by the straight-line method. The useful life of selected types of buildings is shown below.

Type of buildings	Useful life (years)
Reinforced concrete buildings (for residence)	47
Wooden buildings (for residence)	22
Reinforced concrete buildings (for stores)	39
Reinforced concrete buildings (for offices)	50

2.1.6 Acquisition Cost

Purchase commission, which is paid to real estate agents, and unexpired real estate tax, which is paid to sellers, are not deducted from the amount of income but are included in the acquisition cost.

Meanwhile, the registration tax and real estate acquisition tax are deducted from the amount of earnings.

2.1.7 Blue Return

A blue return is allowed for taxpayers who maintain appropriate accounting records.

When taxpayers rent 10 or more condominiums, a special exemption of ¥650,000 is allowed for a blue return. On the other hand, when taxpayers rent less than 10 condominiums, a special exemption of ¥100,000 is allowed for a blue return.

2.1.8 Tax Table

Amount of taxable income		Tax rate	Amount of deduction
Over	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%	¥2,796,000

2.1.9 Estimated Tax Prepayment

When the income tax declared in the previous year's tax return, less withholding tax, is ¥150,000 or more, two-thirds of the amount must be paid in advance in two installments no later than July 31 and November 30 respectively in the current year. The amount of the estimated tax prepayment is fully creditable when the annual tax liability is calculated.

2.2 Real Estate Tax

A real estate tax is imposed by the local government of the area in which the real estate is located. This tax is payable by the individual who is registered as the owner of the real estate as of January 1 each year.

Tax payments must be made four times a year (e.g., in Tokyo's 23 wards, tax payments are due in June, September, December, and February of each year), in accordance with the notification of tax due that is sent to the owner in the first tax payment month.

2.2.1 Building

2.2.1.1 Non-housing Building

$$\text{Tax amount} = (\text{Assessed value of building}^*) \times 1.4\%$$

* Please refer to 1.1.1.1 *1.

2.2.1.2 Housing*1

$$\text{Tax amount} = (\text{Assessed value of building}^2) \times 1.4\% - (\text{Newly built housing deduction}^3)$$

*1 Second housing units (not including resort houses that serve as residences for less than one day per month) and rented housing units are included.

*2 Please refer to 1.1.1.1 *1.

*3 Half of the real estate tax corresponding to up to 120 m² per housing unit for residential space can be deducted for a total of three years, beginning with the next year in which the real estate is taxable (five years for housing units with three or more stories that have a fire protection system or subsystem) when the floor area per housing unit is not less than 50 m² (40 m² for rented units), up to 280 m². For housing units that combine space other than residential space, it is required that the floor area for residential use must be no less than half of the total floor area. Proportionally divided common-use floor space (e.g., corridors or stairs) is added to an exclusive residential space when the floor area is calculated.

2.2.2 Land (Building Lot)

2.2.2.1 Non-housing Land

$$\text{Tax amount} = (\text{Tax base}^*1) \times 1.4\% - (\text{23-ward reduction}^*2)$$

*1 The tax base of the non-housing land is calculated at 65% (in Tokyo's 23 wards) of the land valuation or less. The buyer can learn the tax-base amount by acquiring, from the seller, a copy of the valuation certificate issued by the local government.

*2 20% of the real estate tax, corresponding to up to 200 m² of non-housing land whose area per lot that is not over 400 m², is reduced when the real estate is located in one of Tokyo's 23 wards.

2.2.2.2 Housing Land*1

$$\text{Tax amount} = (\text{Assessed value of land}^*2) \times 1/6^*3 \times 1.4\%$$

*1 This definition applies to land covered by housing units (including housing units that combine space other than residential space, and whose percentage of the entire space is less than 75%), up to 10 times the floor space of the housing units. Rented housing is residential space; however, a resort house that serves as a residence for less than one day per month is not considered residential space.

*2 A special exemption is allowed in certain cases.

*3 One-third is applicable when the housing site is over 200 m² per housing unit.

2.3 City Planning Tax

A city planning tax is imposed on individuals who are registered as owners of real estate in areas designated for urbanization under the City Planning Law. The local government assesses ownership on January 1 each year.

Tax payment must be made four times a year (e.g., in Tokyo's 23 wards, tax payments are due in June, September, December, and February) in accordance with the notification of tax due that is sent to the owner in the first tax payment month.

2.3.1 Building

$$\text{Tax amount} = (\text{Assessed value of building}^*1) \times \text{Tax rate}^*2$$

*1 Please refer to 1.1.1.1 *1.

*2 For example, the tax rate in Tokyo's 23 wards is 0.3%. Each local government establishes its own tax rate.

2.3.2 Land (Building Lot)

2.3.2.1 Non-housing Land

Tax amount = (Assessed value of land*1) × Tax rate*2 – (23-ward reduction*2)

*1 Please refer to 1.1.2 *.

*2 For example, the tax rate in Tokyo's 23 wards is 0.3%. Each local government establishes its own tax rate.

*3 20% of the city planning tax, corresponding to up to 200 m² of non-housing land whose area per lot is not over 400 m², is reduced when the real estate is located in one of Tokyo's 23 wards.

2.3.2.2 Housing Land*1

Tax amount = (Assessed value of land*2) × 1/3*3 × Tax rate*4 – (23-ward reduction*5)

*1 Please refer to 2.2.2.2 *1.

*2 Please refer to 1.1.2 *.

*3 Two-thirds is applicable when the housing site is over 200 m² per housing unit.

*4 For example, the tax rate in Tokyo's 23 wards is 0.3%. Each local government establishes its own tax rate.

*5 Half of the city planning tax, corresponding to up to 200 m² per housing unit, is reduced in Tokyo's 23 wards.

2.4 Inhabitant Tax and Business Tax

Neither inhabitant nor business taxes are imposed on non-residents who do not have a permanent establishment in Japan.

2.5 Consumption Tax

When the amount of rental proceeds (except for residential rent) for two years before

the current year does not exceed ¥10 million, non-residents are exempt from the consumption tax.

2.6 Inheritance Tax or Gift Tax

Non-residents who acquire real estate located in Japan by inheritance, bequest, or gift are liable for inheritance tax or gift tax.

2.7 Net Worth Tax

There is no net worth tax.

3 Tax Guide for Sales

3.1 Income Tax for Capital Gains

3.1.1 Income Tax Liability

Non-residents who sell real estate located in Japan are subject to income tax on capital gains, which is separate from ordinary income. They are required to file their income tax return for the calendar year to the relevant tax office between February 16 and March 15 of the following year, and pay the tax amount by the filing deadline. If a non-resident applies for an automatic bank transfer, the actual fund transfer occurs around mid-April.

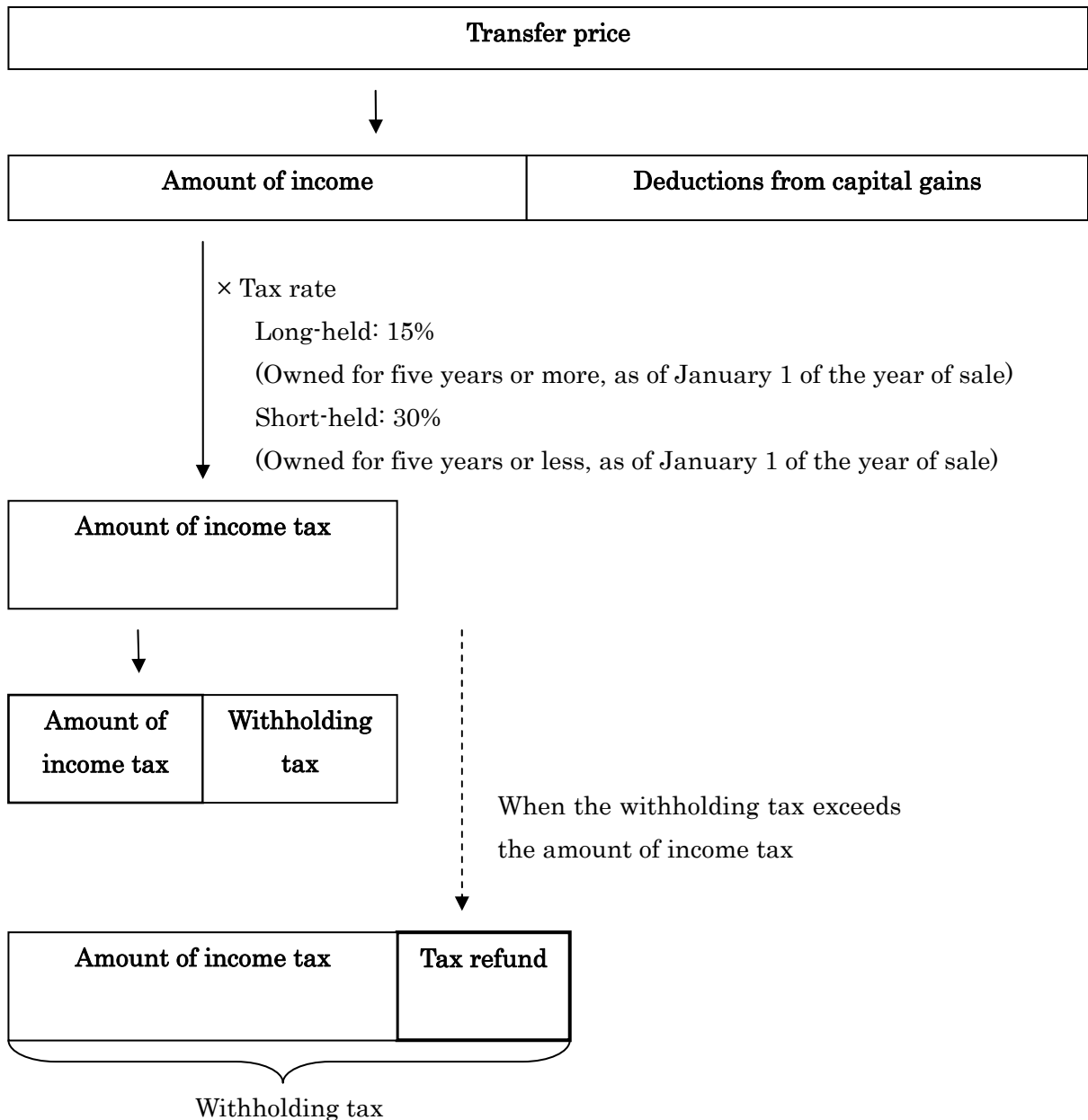
Non-residents in Japan must appoint a tax manager (*nouzei-kanrinin*) who can deal with their tax-related matters in Japan. Generally, they appoint a certified public tax accountant or a certified public tax firm as their tax manager.

3.1.2 Withholding Tax

Income tax at the rate of 10% is withheld when non-residents receive consideration for real estate, except from individuals who buy real estate as their personal or relatives' residence and the price thereof is ¥100 million or less.

The withholding tax is fully creditable against the amount of income tax when the taxpayer declares such income on a tax return. When the balance of the tax amount is in deficit, non-residents can receive a refund on filing a tax return.

3.1.3 Structure of Income Tax for Capital Gains



3.1.4 Deductions from Capital Gains

Capital gains are calculated by deducting the acquisition cost (after deducting depreciation during the holding period) and transfer expenses (e.g., commission to a real estate agent or stamp duty).

The purchase commission, which is paid to real estate agents, and unexpired real estate tax, which is paid to sellers, are both included in the acquisition cost.

3.2 Stamp Duty

3.2.1 Sales Agreement

A stamp duty is imposed when individuals sign a sales agreement. The amount of stamp duty varies with the price of the real estate, as presented in the following table.

Price of the real estate		Amount of stamp duty
Over	Not over	
¥10,000,000	¥50,000,000	¥15,000
¥50,000,000	¥100,000,000	¥45,000
¥100,000,000	¥500,000,000	¥80,000
¥500,000,000	¥1,000,000,000	¥180,000
¥1,000,000,000	¥5,000,000,000	¥360,000
¥5,000,000,000		¥540,000

3.2.2 Receipt for Sale

A stamp duty is imposed when individuals sign a receipt for sale. The amount of stamp duty varies with the amount on the receipt, as indicated in the following table.

Amount on receipt		Amount of stamp duty
Over	Not over	
¥10,000,000	¥20,000,000	¥4,000
¥20,000,000	¥30,000,000	¥6,000
¥30,000,000	¥50,000,000	¥10,000
¥50,000,000	¥100,000,000	¥20,000
¥100,000,000	¥200,000,000	¥40,000
¥200,000,000	¥300,000,000	¥60,000
¥300,000,000	¥500,000,000	¥100,000
¥500,000,000	¥1,000,000,000	¥150,000
¥1,000,000,000		¥200,000

4 Disclaimer

This tax guide is based on information available up to June 1, 2011.

This information does not cover all aspects, but it provides a brief overview on tax regulations for the acquisition, leasing and sale of real estate in Japan by non-resident individuals.