

# JAPAN

Current as of February 2019

Comments related to any information in this note should be addressed to [Lily Liu](#).

## TABLE OF CONTENTS

- I. [Summary](#)
  - A. [Types of Organizations](#)
  - B. [Tax Laws](#)
- II. [Applicable Laws](#)
- III. [Relevant Legal Forms](#)
  - A. [General Legal Forms](#)
  - B. [Public Benefit Status](#)
- IV. [Specific Questions Regarding Local Law](#)
  - A. [Inurement](#)
  - B. [Proprietary Interest](#)
  - C. [Dissolution](#)
  - D. [Activities](#)
  - E. [Political Activities](#)
  - F. [Discrimination](#)
  - G. [Control of Organization](#)
- V. [Tax Laws](#)
  - A. [Tax Exemption](#)
  - B. [Contributions to Japanese NPOs by Individuals and Corporations Based in Japan](#)
  - C. [Value Added Tax](#)
  - D. [Double Tax Treaties](#)
- VI. [Knowledgeable Contacts](#)

## I. SUMMARY

### A. TYPES OF ORGANIZATIONS

Japanese law is grounded primarily in the civil law tradition, though elements of the common law have influenced certain legal developments.

It is possible to form the following types of nongovernment, not-for-profit organizations (NPOs):

- Associations and Foundations (*Ippan Shadan Houjin* and *Ippan Zaidan Houjin*): Under the Association and Foundation Law of 2008, citizens are permitted to form associations or foundations regardless of whether the organization operates in the public interest.
- Public Interest Associations and Foundations (*Koueki Shadan Houjin* and *Koeki Zaidan Houjin*): The Law on Recognizing Organizations as Public Interest details specific requirements for an

association or foundation to be recognized as a Public Interest Association or Foundation. These associations and foundations must receive authorization from the Committee for Public Interest Organizations (*kouekitou nintei iinkai*), which decides whether an organization that is applying for such status satisfies the requirements in the new law (the requirements can be found in Section III.A.2 of this Note).

- *Special Nonprofit Corporations (SNCs), (tokutei hieiri katsudo hojin):* SNCs were created by the Law to Promote Specified Nonprofit Activities (“SNC Law”) of 1998.
- *Other Public Interest Organizations (distinct from Public Interest Legal Persons or PILPs as created under Japan's Civil Code):* These include organizations that were authorized after World War II by special laws arising under (or “attached to”) Article 34 of Japan's Civil Code, such as Social Welfare Entities, Medical Organizations, Private Schools, Relief and Rehabilitation Enterprises, and Religious Organizations. [\[1\]](#)

## B. TAX LAWS

Associations and foundations do not automatically enjoy tax privileges, but do receive tax privileges if the Committee for Public Interest Organizations (*Kouekitou Nintei Iinkai*) decides that these organizations' activities are of public interest. Public Interest Associations and Foundations, as well as NPOs, do not pay taxes on grants and other income earned for non-business activities. This exemption is automatic and nondiscretionary.

The procedure for acquiring certain other tax privileges is separate from the process of acquiring legal entity status and requires specific authorization from the National Tax Administration/Ministry of Finance. As a result, organizations with the same legal form and that engage in essentially the same activities may have significantly different tax treatment. The income of not-for-profit and for-profit entities earned from economic activities are taxed at the same rate. Only some NPOs are permitted to receive tax-deductible contributions.

Additionally, Japan has a standard VAT rate of 8 percent, and there are relatively few exemptions.

The United States and Japan have entered into a double tax treaty.

## II. APPLICABLE LAWS

- [The Constitution of Japan](#) (1946)
- *Trust Law Article 66* (1923) [regulation of public charitable trusts]
- *Corporation Tax Act* (1965)
- *Private School Law, Article 3* (1949)
- [Fundamental Law of Education, Article 3](#) (1947)
- *Religious Corporation Law, Article 4* (1951)
- [Social Welfare Business Law, Article 22](#) (1951)
- *Medical Corporation Law, Article 39* (1950)
- *Relief and Rehabilitation Enterprise Law* (1995)
- *Local Autonomy Law 260(2)* (1991) [regulation of neighborhood associations]
- *Law to Promote Specified Nonprofit Activities (“SNC Law”)* (2003) ([Translation](#))
- *Association and Foundation Law, the Law on Recognizing Organizations as Public Interest, and the Law to Consolidate Relevant Laws* (2008).

- Tax Law
- Income Tax Law Enforcement Ordinance

### **III. RELEVANT LEGAL FORMS**

#### **A. GENERAL LEGAL FORMS**

##### **1. ASSOCIATIONS AND FOUNDATIONS (*IPPAN SHADAN HOUJIN AND IPPAN ZAIDAN HOUJIN*)**

*Under the Association and Foundation Law, citizens can form an association or foundation even if the organization's activities are not in the public interest.*

##### **2. PUBLIC INTEREST ASSOCIATIONS AND FOUNDATIONS (*KOUKEI SHADAN HOUJIN AND KOUKEI ZAIDAN HOUJIN*)**

*The Law on Recognizing Organizations as Public Interest delineates a range of requirements for associations and foundations to be recognized as public interest organizations. The Committee for Public Interest Organizations, which is comprised of experts from various fields, screens applications from organizations and authorizes or rejects the public interest status of each, based on whether an organization satisfies the requirements of the new law. These requirements include:*

- 1. The organization's public purpose activities shall fall under the categories specified by the law;*
- 2. The operation of the organization shall be focused mainly on the pursuit of public purpose activities;*
- 3. The organization shall be capable of undertaking proper accounting and managing its projects;*
- 4. Revenues earned from its public purpose activities shall not exceed the expenses for these activities;*
- 5. The expenses for public purpose activities shall be more than half of its total expenses for overall activities;*
- 6. The balance of the organization shall be expected not to exceed the designated amount;*
- 7. Less than a third of the board members or auditors shall come from a given family or a given company;*
- 8. The honorarium for the board members shall not be unfoundedly expensive;*
- 9. The organization does not possess financial resources that would allow the organization to influence over other entities.*

*A committee summoned by the national government will screen organizations operating on a nationwide scope while committees established by prefectural governments will review organizations whose activities take place in given prefectures.*

##### **3. SPECIAL NONPROFIT CORPORATIONS (SNCS) (*TOKUTEI HIEIRI KATSUDO HOJIN*)**

*This not-for-profit organizational form was created under the Law to Promote Specified Nonprofit Activities (SNC Law), which went into effect in 1998 and was amended in 2002 and 2003. This law seeks to alleviate the legal hurdles of creating Public Interest Legal Persons (PILPs) under Article 34 of Japan's Civil Code.*

*The purpose of an SNC cannot be the generation of profits. Furthermore, an SNC cannot propagate religious teachings, perform religious ceremonies, or educate or foster religious believers (SNC Law Article 2). It must have at least 10 members, and its "provisions regarding acquisition and loss of qualifications for*

membership [must not be] unreasonable" (SNC Law Articles 2, 10, 28). An SNC must have at least three directors and at least one auditor as an officer (SNC Law Article 15). Its primary nonprofit activities may only consist of those activities specified in the Schedule to Article 2 of the law (SNC Law Article 2). The enumerated activities include health care, environmental work, disaster relief, youth activities, and international cooperation (the full list appears in Section III.B).

#### **4. ORGANIZATIONS ESTABLISHED UNDER SPECIAL LAWS ARISING UNDER CIVIL CODE ARTICLE 34 (HEREINAFTER "ARTICLE 34 ORGANIZATIONS")**

The following are among the principal subtypes of Article 34 Organizations. These organizations are subject to different rules regarding operations and tax treatment from those governing associations, foundations, and SNCs.

- **Social Welfare Organizations** provide services for social advancement, including services for the elderly, children, and the handicapped, among other activities.
- **Educational Organizations (Private School Corporations)** operate private schools.
- **Religious Corporations** engage in religious or evangelical activities.
- **Medical Corporations** establish hospitals and clinics in which doctors or dentists provide regular services, or facilities for the health and welfare of the elderly. Under Japanese law, only not-for-profit entities are permitted to provide medical treatment, creating a prominent role in this field for not-for-profit organizations. However, except for the small category of "Special Medical Corporations," most Medical Corporations are not accorded the same treatment as PILPs. This is reflected, for example, in tax treatment: Medical Corporations are taxed in the same manner as ordinary corporations.
- **Relief and Rehabilitation Enterprises** (sometimes called "Regeneration and Protection Corporations") assist those who are imprisoned to rehabilitate and integrate them back into society.

#### **B. PUBLIC BENEFIT STATUS**

Associations and foundations can obtain legal personality if they carry out activities that are not in the public interest. For SNCs and other organizations, however, this issue is addressed at the initial registration stage; these NPOs must demonstrate to the responsible government agency or local government that they provide a public benefit in order to obtain legal personality. These same ministries may dissolve an organization by revoking the initial authorization if they conclude that it no longer serves the public interest.

A SNC must pursue one or more of the "specified nonprofit activities" listed in a schedule to the SNC Law. Enumerated activities include:

- Promotion of health, medical treatment, or welfare;
- Promotion of social education;
- Promotion of community development;
- Promotion of science, culture, the arts, or sports;
- Conservation of the environment;
- Disaster relief;
- Promotion of community safety;

- *Protection of human rights or promotion of peace;*
- *International cooperation;*
- *Promotion of a society with equal gender participation;*
- *Sound nurturing of youth;*
- *Development of information technology;*
- *Promotion of science and technology;*
- *Promotion of economic activities;*
- *Development of vocational expertise or expansion of employment opportunities;*
- *Protection of consumers; or*
- *Administration of organizations that engage in the above activities or provision of liaison services, advice, or assistance in connection with the above activities.*

*For Public Interest Associations and Foundations, a Committee reviews the nature of the activities of the organization and determines whether the activities are in the public interest. The Committees (one for nationwide, and 47 for respective prefectures) may dissolve an organization within its jurisdiction by revoking its initial authorization. Similarly, Public Interest Associations and Foundations must pursue one or more of the "specified nonprofit activities" listed in an attachment to the Law on Recognizing Organizations as Public Interest.*

*The Article 34 Organizations pursue public benefit objectives, which are specified in the relevant law. Except for most Medical Corporations, the majority of these organizations enjoy tax benefits.*

*Public interest status in Japan may also be affected by three special designations, under which donations to an entity can be tax deductible (these designations are discussed further in Section V.B).*

*First, Public Interest Associations and Foundations based on the Law on Recognizing Organizations as Public Interest and certain Article 34 Organizations can seek status as Special Public Interest Promoting Corporations (SPIPCs), the largest category of organizations eligible to receive tax-deductible donations. An SPIPC must satisfy heightened requirements, including (i) the existence of appropriate management and accounting systems, (ii) internal provisions prohibiting the allocation of special interests to directors or employees, and (iii) allocation of its resources primarily to one of the activities on a specified list (Enforcement Ordinance of the Income Tax Law Article 217(7)).*

*Second, certain Article 34 Organizations can seek status as Organizations Eligible for Designated Contributions. The Ministry of Finance confers this designation. Among other requirements, the funds must be devoted to urgent needs in the promotion of the public good, such as education, science, culture, and welfare services.*

*Finally, SNCs with National Tax Administration Approval can receive tax-deductible contributions under the SNC Law. For an SNC to be eligible for the special tax benefits, the Tax Administration must find that the organization contributes to the promotion of public benefit (SNC Law Article 46-2). Other criteria are set forth in the Special Tax Measures Law. Only a small number of SNCs qualify for these tax benefits (as of February 2018, 1,410 SNCs have acquired the status).*

## **IV. SPECIFIC QUESTIONS REGARDING LOCAL LAW**

### **A. INUREMENT**

Relevant legislation does not generally preclude the possibility of inurement to private individuals or for-profit entities. An SNC "must not engage in operations for the interests of a specific individual or corporation or other organization" (Special Nonprofit Corporation Promotion Law Article 3(1)). In addition, an SNC is prohibited from providing remuneration to more than one-third of its officers ([SNC Law Article 2\(2\)\(i\)\(b\)](#)). Those few SNCs with tax-deductible status are subject to more stringent rules against inurement.

Further, organizations that qualify for designation as SPIPCs are subject to regulations on benefits provided to directors and employees under Article 217 of the Enforcement Ordinance of the Income Tax Law.

## **B. PROPRIETARY INTEREST**

A donor or founder cannot retain a proprietary interest in donated assets during the life of an organization.

## **C. DISSOLUTION**

Article 249 of the Law on Associations and Foundations states "the Articles of Incorporation designates to whom the assets of legal entities that have been dissolved are to be reverted." If the Articles of Incorporation or the Act of Endowment fails to specify how assets are to be disposed of, "it should be decided by the General Assembly or the Board of Councilors." In case the Assembly or the Board fails to specify how assets are to be disposed of, the National Government will take in the assets.

In addition, Public Benefit Associations and Foundations must specify in their Articles of Incorporation how remaining assets for public benefit activities will be distributed in case they lose their public benefit status. The Law on Public Benefit Associations and Foundations states that donations of remaining assets for public benefit activities can be made to:

- A school corporation established under the Private Schools Law;
- A social welfare organization established under the Social Welfare Services Law;
- A relief and rehabilitation enterprise created under the Relief and Rehabilitation Enterprise Law;
- An independent administrative institution created under the Independent and Administrative Institution Law;
- A National University Corporation under the National University Corporation Law; or
- A local independent administrative institution under the Local Independent Administrative Institution Law. (Law on Public Benefit Associations and Foundations, Article 5(17))

Upon dissolution of an SNC, remaining assets are distributed pursuant to the organization's statutes, providing that the recipient is another SNC or is one of the following entities:

- The national government or a local public organization;
- A corporation established under the provisions of Article 34 of the Civil Code;
- A school corporation established under the Private Schools Law;
- A social welfare organization established under the Social Welfare Services Law; or
- A relief and rehabilitation enterprise created under the Relief and Rehabilitation Enterprise Law. (SNC Law, Article 11(3))



*If an SNC has not identified an eligible recipient organization, its assets may be transferred to the national government or a local public organization (The Law to Promote Specified Nonprofit Activities Article 32). Any assets that are not otherwise distributed pursuant to these procedures are assigned to the national Treasury.*

*Article 34 Organizations are generally governed by legislation requiring them to assign remaining assets to public benefit purposes or to the government. Schools organized under the Private Schools Law must assign their remaining assets to other schools or those that are engaged in education (The Private Schools Law Article 30(3)). Social welfare organizations are similarly required to assign their remaining assets to other social welfare organizations or those that will apply them to further social welfare (The Social Welfare Law Article 31(3)). Relief and Rehabilitation organizations are required to assign their remaining assets to relief and rehabilitation organizations engaged in regular protection under the Article 45, relief and rehabilitation organizations engaged in temporary protection, or to provision of grants for communication activities under Article 47-2 (The Relief and Rehabilitation Law Article 11(3)).*

## **D. ACTIVITIES**

### **1. GENERAL**

*An NPO in Japan is generally permitted to engage in all lawful activities specified in its charter. On the other hand, if a Public Interest Association or Foundation wishes to change the activities relating to its public benefit status, the organization must notify the Committee (*Kouekitou Ninte Inkaï*) of the proposed changes so that it may evaluate whether the new activities are of public interest. Public Interest Associations and Foundations may engage in operations other than those relating to the public interest activities to the extent that said other operations do not interfere with the public interest activities. This requirement does not apply to associations and foundations under the Law on Associations and Foundations.*

*As for SNCs, the Law to Promote Specified Nonprofit Activities (SNC Law) was amended in 2011. As a result, SNCs have been subject to the jurisdiction of the prefectural government. SNCs whose activities cover more than two prefectures are subject to the jurisdiction of the Cabinet Office under the current law, but, as of April 1, 2012, these SNCs are subject to the prefectural government where the main office the SNC is located. If an SNC operates exclusively in specifically designated cities with a population of more than 50 million people, then the head of the city will be responsible for the SNC (SNC Law Article 9).*

*An SNC may engage in operations other than those relating to the nonprofit activities listed in the law to the extent that said other operations do not interfere with the nonprofit activities listed in the law ([SNC Law Article 5\(1\)](#)).*

### **2. PUBLIC BENEFIT ACTIVITIES**

*For Public Interest Associations and Foundations, a committee decides whether the organization's activities fall under the 22 public interest activities listed in a schedule to the law. An SNC must pursue one or more of the 20 public benefit activities listed in a schedule to the law. [2] Most Article 34 Organizations—including Social Welfare Organizations, Educational Organizations, and Religious Corporations—pursue public benefit objectives and enjoy tax benefits. The majority of Medical Corporations, however, are not accorded tax benefits.*

*Three designations allow organizations to receive tax-deductible contributions: SPIPCs, Organizations Eligible for "Designated Contributions," and SNCs with National Tax Administration Approval. All three designations impose additional public benefit requirements, as discussed in Section III.B.*

### **3. ECONOMIC ACTIVITIES**

*All forms of NPOs may engage in profit-generating activities to the extent they do not interfere with the primary not-for-profit objectives of the organization.*

*If an SNC gains revenue from economic activities, the revenue must be devoted to the not-for-profit activities listed in the SNC Law ([SNC Law Article 5\(1\)](#)).*

## **E. POLITICAL ACTIVITIES**

*An SNC must not undertake activities "for the purpose of promoting, supporting, or opposing a political principle" or "for the purpose of recommending, supporting, or opposing a candidate ... for a public office ... or a political party" ([SNC Law Article 2\(2\)\(ii\)](#)).*

*Otherwise, an NPO may engage in political activities and support political candidates and parties, so long as such activities are a means to realize the organization's objectives ("The Standards for Permitting Establishment of and Guidance and Supervision of Nonprofit Organizations," Cabinet Decision 1996).*

## **F. DISCRIMINATION**

*[Article 14 of the Japanese Constitution of 1946](#) states that there "shall be no discrimination in political, economic or social relations because of race, creed, sex, social status or family origin" (Japanese Constitution of 1946 Article 14). [Furthermore, Article 3 of the Fundamental Law](#) of Education states: "The people shall all be given equal opportunities of receiving education according to their ability, and they shall not be subject to educational discrimination on account of race, creed, sex, social status, economic position, or family origin."*

## **G. CONTROL OF ORGANIZATION**

*In general, no restrictions exist on the control of NPOs by other organizations, individuals, or government agencies. Nothing in Japanese law prevents a Japanese NPO from being controlled by another organization. A Japanese NPO might be established (but not owned) by a for-profit entity, which would continue to control it. A Japanese NPO likewise could be controlled but not owned by an American grantor charity, though this situation would have to be disclosed in the affidavit.*

## **V. TAX LAWS**

*In order to receive certain tax benefits, organizations must go through a separate application process with the tax authorities and satisfy particular criteria.*

### **A. TAX EXEMPTION**

*In general, grants from foreign organizations to Japanese NPOs are exempt from corporate income tax, simply because only income from profit-making activities is subject to taxation. This exemption generally is automatic and nondiscretionary; this is not the case, however, for associations and foundations established for profit-making purposes.*

## **PUBLIC INTEREST ASSOCIATIONS AND FOUNDATIONS**

*Under the three new laws of 2008 Public Interest Associations and Foundations enjoy various tax benefits, including on corporation tax and tax on passive income, such as interest, dividends, and investment income. They also enjoy tax-exempt status; they are exempted from revenue that comes from public interest activities that are recognized by the Committee for Public Interest Organizations (*Kouekitou Nintei Iinkai*).*

*Contributions to Public Interest Associations and Foundations are also tax deductible. Public Interest Associations and Foundations are classified into three categories: associations and foundations with*



completely not-for-profit sharing structures (*kanzen hibunpaihoujin*), associations and foundations of mutual benefit (*kyoueki houjin*), and other associations and foundations (*tokutei futu houjin*). The former two types of organizations are treated as being not-for-profit, thereby exempting them from tax on revenues, unless the revenues come from 34 for-profit activities specified in Articles 4 and 7 of the Corporation Tax Law. These organizations, however, are not exempted from tax on passive income, such as interest, dividends, and investment income, and donations to these organizations are not tax deductible. In contrast, other associations and foundations, or *tokutei futu houjin*, are not exempted in any of the aforementioned ways, including on corporation and excise tax and benefits for donations. The rate for other associations and foundations on corporation tax is 23.4 percent, but if the organization's total revenue is less than 8 million Japanese Yen (approximately \$77,000), the rate is 15 percent.

## PILPS

PILPs must pay corporate income tax on revenue from 33 specified for-profit activities (See Articles 4 and 7 of the Corporation Tax Law). For these activities, PILPs are taxed at a rate of 22 percent. In addition, PILPs are permitted to deduct up to 20 percent of income from profit-making activities if the funds are used to expand their core public interest activities. Passive income, such as interest, dividends, and investment income, is not subject to income tax if the income is used for the advancement of the organization's not-for-profit activities. PILPs may be exempt from local taxes only if their main purpose is the establishment of a museum or the pursuit of studies.

## SNCS

SNCs must also pay corporate income tax on revenue from 33 specified for-profit activities. The first 8 million yen (approximately \$77,000) are taxed at a rate of 15 percent. Any amount above that is taxed at a rate of 23.4 percent (The Corporation Tax Law Articles 4 and 7). In addition, certain SNCs are allowed to deduct up to 20 percent of income from profit-making activities if the funds are used to expand their core public interest activities.

## ARTICLE 34 ORGANIZATIONS

Social Welfare Corporations, Private School Corporations, and Relief and Rehabilitation Enterprises are generally subject to the tax benefits that apply to Public Interest Associations and Foundations but with a few different rules. For example, they can deduct the greater of 50 percent or 2 million yen (approximately \$19,000) of income earned from profit-making activities.

Medical Corporations, by contrast, are taxed at the full corporate tax rate except to the extent they receive medical fees as reimbursements from the social insurance system. An exception applies to "Special Medical Corporations" (*tokutei iryo hojin*), which the Ministry of Finance has certified as being especially in the public interest. They are taxed at 18 percent on profits and receive other minor tax benefits.

## B. CONTRIBUTIONS TO JAPANESE NPOS BY INDIVIDUALS AND CORPORATIONS BASED IN JAPAN

The ability to deduct contributions to Japanese NPOs depends on whether the recipient organization has received specific authorization from the appropriate tax authorities. Thus, no broad categories of NPOs are entitled to receive tax-deductible donations.

In general, contributions are deductible if they are made to (i) "Special Public Interest Promoting Corporations" (SPIPCs), (ii) Organizations Eligible for "Designated Contributions" (*shitei kifukin*), or (iii) SNCs with National Tax Administration Approval.

### 1. SPECIAL PUBLIC INTEREST PROMOTING CORPORATIONS (SPIPCS)

The largest group of NPOs eligible to receive tax-deductible donations is “Special Public Interest Promoting Corporations.” SPIPCs must satisfy heightened requirements, including (i) the existence of appropriate management and accounting systems, (ii) internal provisions prohibiting the allocation of special benefits to directors or employees, and (iii) allocation of resources primarily to one of the activities in a specified list (Enforcement Ordinance of the Income Tax Law). This status, however, is effective for 2 years and renewable, requiring organizations to go through the same rigorous screening process as before.

Only certain types of organizations are eligible for SPIPC status:

- *Public Interest Associations and Foundations:* a public interest association or foundation can qualify as an SPIPC.
- *SNCs:* SNCs are not eligible for SPIPC status.
- *Article 34 Organizations:* Private School and Social Welfare Corporations are eligible for SPIPC status. Religious and Medical Corporations are not.

Contributions of individuals to SPIPCs are deductible up to 40 percent of their annual income beyond a base of 2,000 yen (approximately \$20). In addition, if contributions are made to Public Interest Associations and Foundations that satisfy certain criteria, donors can choose between deductions from their own income and deductions from the income tax. The contributions of corporations are deductible up to a limit (half of the total of 6.25 percent of income plus 0.375 percent of paid-in capital). In addition, bequests to SPIPCs are deductible from inheritance tax.

## **2. ORGANIZATIONS ELIGIBLE TO RECEIVE “DESIGNATED CONTRIBUTIONS”**

Certain Article 34 Organizations are eligible to seek certification to receive “Designated Contributions.” It is conferred by the Ministry of Finance, based on numerous requirements as to how funds are raised and used. According to Article 78 (2)-[2] of the Income Tax Law, the contributions must be (1) raised from the public at large, and (2) used to meet urgent needs in the promotion of the public good, such as furthering education, science, culture, and welfare services. Before designating contributions as eligible for this treatment, the Ministry of Finance examines the activities to be supported, the target amount to be raised, from whom the funds will be collected, and the period during which the contributions will be raised. If the Ministry’s requirements are met, it declares that the contributions qualify as “designated contributions” eligible for deduction.

Individuals’ contributions to Organizations Eligible to Receive “Designated Contributions” are deductible up to 40 percent of their annual income beyond a base of 2,000 yen (approximately \$20). The contributions of corporations are deductible without limitation.

## **3. SNCs WITH NATIONAL TAX ADMINISTRATION APPROVAL**

Under the current law, SNCs must apply to the National Tax Administration for their tax-deductible status. SNCs must seek approval from the prefectural government for this status. In order for contributions to be tax deductible, SNCs must satisfy a list of requirements including the Public Support Test (PST)—that is, an SNC must demonstrate that it receives at least one-fifth of its revenue from qualifying contributions. An SNC may pass the PST by demonstrating that it receives a contribution of more than 3,000 yen (approximately \$30) from at least 100 individuals or institutions in a given fiscal year. The status is effective for five years.

In addition, a tentative approval system has been introduced under the new amendment that allows newly established SNCs to acquire a tax-deductible status without passing the PST. This temporary status is

effective for three years, and it can be acquired only once. Eligible SNCs are limited to those that were established within five years at the time of application. However, for the first three years of the enactment, SNCs in operation for more than five years has been allowed to apply for this temporary status.

As of January 2018, only 1,103 of the 51,676 SNCs had attained tax-deductible status.

### **C. VALUE ADDED TAX**

The standard VAT rate in Japan is eight percent as of April 1, 2014. The relatively narrow range of nontaxable imports includes certain textbooks and certain equipment for use by the handicapped.

### **D. DOUBLE TAX TREATIES**

A double tax treaty is in effect between the United States and Japan.

## **VI. KNOWLEDGEABLE CONTACTS**

Junko Chano: [chano@spf.or.jp](mailto:chano@spf.or.jp)

Akira Matsubara: [matubara@trust.ocn.ne.jp](mailto:matubara@trust.ocn.ne.jp)

Tatsuo Ohta: [ohta@kohokyo.or.jp](mailto:ohta@kohokyo.or.jp)

See also the website of the Japan Association of Charitable

Organizations: [http://www.kohokyo.or.jp/english/eng\\_index.html](http://www.kohokyo.or.jp/english/eng_index.html)

---

### **FOOTNOTES**

[1] This Note generally excludes the following types of organizations: those not-for-profit entities established as conventional corporations under Article 35 due to the difficulties of incorporating a PILP under Article 34; neighborhood associations; a relatively small number of public charitable trusts formed under a 1923 law; associations without legal status; and cooperatives.

[2] As a result of an amendment in 2011, two more activities have been added to the list as well as activities specified by relevant prefecture. The two activities added include activities to promote tourism and activities to revitalize rural villages.