

Japan's economic climate hosts large innovative companies and boasts a safe culture, which makes it an ideal place to expand your company. However, the country also has complex payroll and employment laws that often favor employees. It is best to know all the ins and outs of these laws before setting up payroll in Japan.

Payroll Taxation Rules

Japan's progressive tax system increases with an employee's salary. Salary income is subject to the national income tax and a local inhabitants tax, which is a flat rate that varies based on location. The national income tax ranges from 5% to 45%.

Both employers and employees also contribute to Japan's social security system, which provides health care, pension, unemployment insurance, and more. Since the system is so comprehensive, many employers choose not to offer additional insurance benefits. Employers and workers each pay 50% of the premiums for health and welfare pension insurance.

Japan Payroll Options

Companies have numerous payroll options in Japan, depending on their size and what works best for their needs.

- Larger companies may opt to run their own payroll. However, you will need to hire additional human resources personnel and curate an understanding of all Japanese payroll laws.
- You can also hire a Japanese payroll outsourcing company that can handle compensation, tax regulations, and compliance. You will still act as the employer of record and will remain liable for everything the outsourcing company does.
- Alternatively, you can work with a global PEO such as Globalization Partners. As a Japanese payroll processing company, we handle payroll while also acting as the employer of record to take the liability off your shoulders.

What Is Required to Set up Payroll in Japan?

Setting up your Japan payroll largely depends on your corporate structure. The four most common include:

- Godo-Kaisha: Similar to a US LLC
- Goshi-Kaisha: A limited partnership company
- Gomei-Kaisha: A general partnership company
- Kabushiki-Kaisha: The Japanese version of incorporation

Before setting up payroll, all businesses must set up bank accounts in Japan and complete numerous payroll registrations. You'll also have to register for withholding tax, social insurance, and national labor insurance.

Necessary Entitlement/Termination Terms

Required entitlement and termination terms are one of the most fundamental things to understand before beginning the hiring process. Entitlements include anything from medical leave to paid vacation and maternity leave.

Include your termination terms in a strong written employment contract. Japan does not have a mandatory statutory severance pay, but employers must give 30 days notice of dismissal.

Instead of setting up your payroll and entitlement and termination terms yourself, you can work with Globalization Partners. As a payroll outsourcing company, we pay your employees and provide all the benefits they are entitled to. With our employer of record service, you don't even have to worry about liability. Contact us today to learn more about our services.