MSME Registration
- A Japanese Approach –

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Incheon Law & Business Forum
Gen Goto (The University of Tokyo)
MSMEs in Japan

- Legal forms for businesses in Japan
  - MSMEs can be individual entrepreneurs, Japanese LLCs or stock corporations

<table>
<thead>
<tr>
<th>Type</th>
<th>Count (as of date)</th>
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<tbody>
<tr>
<td>As an individual</td>
<td>ca. 5.3 million</td>
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<td>Japanese LLC (GK: godo kaisha)</td>
<td>ca. 100 thousand</td>
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<tr>
<td>Stock corporation (KK: kabushiki kaisha)</td>
<td>ca. 2.54 million</td>
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<td>Listed companies</td>
<td>3788</td>
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- MSMEs under Japanese legal system
  - For those in manufacturing industry, companies or individuals with
    - A) Legal capital of 300M JPY or less, or;
    - B) 300 or less employees
  - Lower threshold for those in wholesale/retail/service industries
Business registration and MSMEs in Japan

- For J-LLCs/stock corporations
  - Registration necessary for formation as a judicial person

- For individual entrepreneurs
  - Registration NOT required
  - Registration of business name is permitted, but no special legal effect is attached
    - De facto effect as a proof of usage
  - Not being registered does not mean operating in an informal economy
    - Most individual entrepreneurs seem to be recognized by the tax authority

- Still, many MSMEs register as J-LLCs/stock corps to obtain;
  - Limited liability
  - Tax benefits (deduction of managers salary from profits, in some cases lower rate)
  - Better access to bank finance, based on better transparency

- Promotion of entrepreneurship as an economic policy
Business registration process in Japan

- Online, one-stop shop: in full operation since Jan 2020
  - Uses national ID number for social security and taxation (“My Number”), which is also issued to non-Japanese residents
- Registration within 24hrs for full-online applications with 5 or less directors: since March 2020
- “Formalistic” review based on submitted documents by the registry
- Prevention of misuse of corporate forms
  - Submission of a list of founders required (update is NOT required)
  - Limited requirement of notarization of articles of incorporation
    - Only for establishing a stock corporation, but can be done via online meeting
    - Not required for establishing a J-LLC, nor for converging a J-LLC into a stock corporation
- One example of how to balance efficient & speedy registration and prevention of frauds