

# MSME Registration - A Japanese Approach -

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# MSMEs in Japan

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

As an individual	ca. 5.3 million (as of 2021)
Japanese LLC (GK: <i>godo kaisha</i> )	ca. 100 thousand (as of 2018)
Stock corporation (KK: <i>kabushiki kaisha</i> )	ca. 2.54 million (as of 2018)
Listed companies	3788 (as of Aug 24, 2021)

- ▶ 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