Part 1: Narrative Report

The narrative report has not been updated since the FSI 2013 – though all references to FSI scores or ratings reflect the 2015 results.

Japan is not widely regarded as a secrecy jurisdiction, but it is appropriate to include it in our index.

Japan’s “Big Bang” in terms of offshore finance happened with the setting up of the so-called Japan Offshore Market in 1986. Essentially, this was an effort to attract foreign financial business by exempting it from tax and a range of financial regulations. It was modeled on a Singaporean facility (the Asian Currency Market) that had been set up in 1968, and on a similar U.S. facility set up by the United States in 1984. More generally, it was also a reaction to the rapid growth of the offshore Euromarkets, pioneered by the City of London since the 1950s (Treasure Islands pp 80-102). This was followed by special tax exemptions for Japanese government bonds in 1999, and for municipal bonds in 2007. The scope of the tax exemption was widened in 2010 to include corporate bonds.

Japan’s fairly weak provisions on transparency and information exchange, combined with its tax-free treatment of various forms of foreign investment and exemption from financial regulations, have made it a significant destination for illicit financial flows. The country’s relatively poor record of co-operation with foreign governments on money-laundering adds to our concerns.

Japan does, however, place some restrictions on non-residents wishing to open bank accounts, and customer due diligence makes it harder than in many jurisdictions for illicit funds to enter and be banked in Japan under anonymous or third party names. Japan has also taken measures to protect itself against offshore tax haven activity. In 1978 it adopted a Tax Haven Counter Measure Law (THCML, amended a few times since then.) A part of the law since inception has been an “economic logic test” to the use of foreign subsidiaries by companies based in Japan. This has the objective of minimizing the potential of transfer pricing abuse, as also the use of tax havens or low tax jurisdictions. In essence, if the standards of the Business Purpose test are not met, the income is taxed currently at the parent company rates in Japan. These standards require that (i) the overseas subsidiary has sufficient staff, assets, and premises to execute business in the jurisdiction concerned, (ii) that it has local management and control of the business, and (iii) more than 50% of its income is derived from sources that are not part of its related group of companies including the parent. As a result of these requirements the use of tax havens and low-tax jurisdictions is limited in scope.
for Japanese multinational companies. (For more details, see http://japantax.org/?p=590, and access the Japan tax haven rules.)

Read more
- Full data for Japan
- Japan on TJN Blog
- Full Methodology
PART 2: JAPAN’S SECRECY SCORE

TRANSPARENCY OF BENEFICIAL OWNERSHIP – Japan

1. Banking Secrecy: Does the jurisdiction have banking secrecy?
   - Japan partly curtails banking secrecy

2. Trust and Foundations Register: Is there a public register of trusts/foundations, or are trusts/ foundations prevented?
   - Japan partly discloses or prevents trusts and private foundations

3. Recorded Company Ownership: Does the relevant authority obtain and keep updated details of the beneficial ownership of companies?
   - Japan does not maintain company ownership details in official records

KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – Japan

4. Public Company Ownership: Does the relevant authority make details of ownership of companies available on public record online for free, or for less than US$10/€10?
   - Japan does not require that company ownership details are publicly available online

5. Public Company Accounts: Does the relevant authority require that company accounts are made available for inspection by anyone for free, or for less than US$10/€10?
   - Japan does not require that company accounts be available on public record

6. Country-by-Country Reporting: Are all companies required to publish country-by-country financial reports?
   - Japan partly does not require public country-by-country financial reporting by companies

EFFICIENCY OF TAX AND FINANCIAL REGULATION – Japan

7. Fit for Information Exchange: Are resident paying agents required to report to the domestic tax administration information on payments to non-residents?
   - Japan requires resident paying agents to tell the domestic tax authorities about payments to non-residents

8. Efficiency of Tax Administration: Does the tax administration use taxpayer identifiers for analysing information efficiently, and is there a large taxpayer unit?
   - Japan partly uses appropriate tools for efficiently analysing tax related information

9. Avoids Promoting Tax Evasion: Does the jurisdiction grant unilateral tax credits for foreign tax payments?
   - Japan partly avoids promoting tax evasion via a tax credit system

10. Harmful Legal Vehicles: Does the jurisdiction allow cell companies and trusts with flee clauses?
    - Japan partly allows harmful legal vehicles

INTERNATIONAL STANDARDS AND COOPERATION – Japan

11. Anti-Money Laundering: Does the jurisdiction comply with the FATF recommendations?
    - Japan partly complies with international anti-money laundering standards

12. Automatic Information Exchange: Does the jurisdiction participate fully in multilateral Automatic Information Exchange via the Common Reporting Standard?
    - Japan partly participates in Automatic Information Exchange

13. Bilateral Treaties: Does the jurisdiction have at least 53 bilateral treaties providing for information exchange upon request, or is it part of the European Council/OECD convention?
    - As of 31 May, 2015, Japan had at least 53 bilateral tax information sharing agreements complying with basic OECD requirements

14. International Transparency Commitments: Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency?
    - Japan has ratified less than five of the most relevant international treaties relating to financial transparency

15. International Judicial Cooperation: Does the jurisdiction cooperate with other states on money laundering and other criminal issues?
    - Japan partly cooperates with other states on money laundering and other criminal issues

Notes and Sources

The ranking is based on a combination of its secrecy score and scale weighting (click here to see our full methodology).

The secrecy score of 58 per cent for Japan has been computed by assessing its performance on 15 Key Financial Secrecy Indicators (KFSI), listed on the left. Each KFSI is explained in more detail, here.

Green indicates full compliance on the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); and yellow indicates partial compliance.

This paper draws on data sources including regulatory reports, legislation, regulation and news available as of 31.12.2014 (with the exception of KFSI 13 for which the cut-off date is 31.05.2015).

Full data on Japan is available here: http://www.financialsecrecyindex.com/database/menu.xml

All background data for all countries can be found on the Financial Secrecy Index website: http://www.financialsecrecyindex.com