

Ernst & Young Tax Co. and EY Immigration Corporation

Overseas assignment policies and tax practices survey

(Summary version)

EY Mobility Survey No. 3

Allowances, salaries, benefits, regulations, and double taxation of overseas assignees

Ernst & Young Tax Co. and EY Immigration Corporation

April 2022



EY

Building a better
working world

EY Mobility Survey

Overview of EY Mobility Survey No. 3

Purpose	This survey serves to analyze the circumstances surrounding allowances, salaries, benefits, regulations, and double taxation of overseas assignees.
Topics	Allowances, salaries, benefits, regulations, and double taxation of overseas assignees.
Survey period	Monday 14 February 2022 to Thursday 31 March 2022
Number of respondents	238 (valid responses*: 215) *The following standards were applied in cases where there were multiple respondents from the same company: 1. Responses from the head office over those from an overseas subsidiary were prioritized 2. Responses from human resource departments over those from all other departments were prioritized 3. Surveys from respondents with the most valid responses were prioritized when there were multiple respondents from the same department or group

Message

EY Mobility Survey No. 3 focuses on fields that are of the most interest to HR personnel and overseas assignees, including paying salaries, allowances, and benefits to assignees.

We outline the latest trends in the criteria utilized by different companies for provision of benefits, such as allowances, temporary return leave to one's home country, education for accompanying children, and housing-related expenses.

(The average values of allowances for overseas work, hardship, and assignees with no accompanying family are presented in this document for each employee rank, but any information that may reveal company names or other identifying information has been concealed, with median, maximum, minimum, and other specific values for relevant questions to be shared only with the responding company in question.)

This report from Ernst & Young Tax Co. and EY Immigration Corporation analyzes the current situation, including projections regarding impacts on overseas activities and risk avoidance, through a survey into the circumstances of overseas assignees. We hope the information contained in this report proves valuable to your company's needs.

Ernst & Young Tax Co. and EY Immigration Corporation

Inquiries: EY Mobility Survey administrative office (ey.survey@jp.ey.com)

*Please contact the EY Mobility Survey PMO if planning to use or cite the results of this survey.

Summary

Summary version includes the results below in red

1	Service lines and positions of respondents 90% of respondents were HR personnel from management departments, ranging from general employees to directors	4	17	Company-provided items when assignees temporarily return to home country	
2	Respondent attributes Corporate nationality and industry	5	18	Frequency of payments for temporary return expenses (accompanied/unaccompanied/single-status)	
3	Criteria for provision of overseas work allowances 60% provide according to rank, yearly or monthly income, 10% provide all employees equally, over 10% provide no allowance	6	19	Challenges concerning benefits for overseas assignees	
4	Amounts provided for overseas work allowances		20	Plans for reviewing/creating new regulations for overseas assignees, timing of most recent review — 30% of companies have reviewed regulations in the past year or are considering doing so within the next year	15
5	Cities covered by hardship allowances and factors in determining the criteria for amounts provided Half of respondents use indices from consulting firms, followed by 14% who use independent criteria and survey results	7	21	Reasons and objectives for reviewing/creating new regulations for overseas assignees Most common response (over 50%) was “to improve policies and procedures for assignees”	16
6	Hardship allowance amounts by city		22	Challenges when reviewing/creating new regulations for overseas assignees Over 40% face difficulties in understanding the global market, approx. 20% face difficulties in acquiring global standardization know-how	17
7	Criteria for provision of allowances for unaccompanied assignees Approx. 70% of all companies provide allowances, with most using a uniform payment method for all employees	8	23	Challenges regarding overseas trainees Cost burdens, tax risks, and other issues are wide-ranging	18
8	Allowance provision amounts for unaccompanied assignees		24	Resignations while on overseas assignment (selective taxation on severance pay in Japan)	
9	Criteria for provision of overseas position-based allowances Over half of companies provide no allowance, the majority of providing companies do so according to the assignee's position overseas, less than 10% provide only for top management	9	25	Income tax returns in the assignment country for severance pay provided during overseas assignments Excluding non-applicable cases, most companies correctly filed and paid taxes in assignment locations	19
10	Providing overtime pay when working overseas		26	Turnover rates after returning from overseas assignments (compared to domestic workers)	
11	Calculation methods for hypothetical taxes (hypo taxes) 40% of companies use estimates, while nearly 30% perform TEQ and make exact calculations	10	27	Measures to prevent turnover for assignees and returnees and related challenges	
12	When overseas salary levels exceed assignee's salary		28	Challenges concerning regulations for overseas assignees, programs for overseas trainees, and severance pay while on assignment Example responses	20
13	Challenges regarding allowances and salaries for overseas assignees Challenges in the balance sheet approach, living expenses, exchange rates, payment levels, allowances, operations, and taxation	11-13	29	Short-term overseas assignees and long-term business travelers (cases in which 90 days or more per year are spent overseas)	
14	Scope of provision for housing expenses		30	Short-term overseas assignees and long-term business travelers (handling of tax payments in assignment locations) Most often overseas subsidiaries provide advance payments with Japanese headquarters bearing the final burden	21
15	Handling of medical expenses not covered by overseas travel insurance, medical insurance, etc.		31	Handling occurrences of double taxation between Japan and assignment locations Over 30% of companies avoid double taxation by filing a tax return in Japan and applying the foreign tax credit	22
16	Scope of provision for kindergarten and daycare expenses for accompanying children 90% of respondents provide for a part or for all expenses	14			

EY is able to provide support for all topics and challenges raised in this survey.

1

Service lines and positions of respondents
90% of respondents were HR personnel from management departments, ranging from general employees to directors

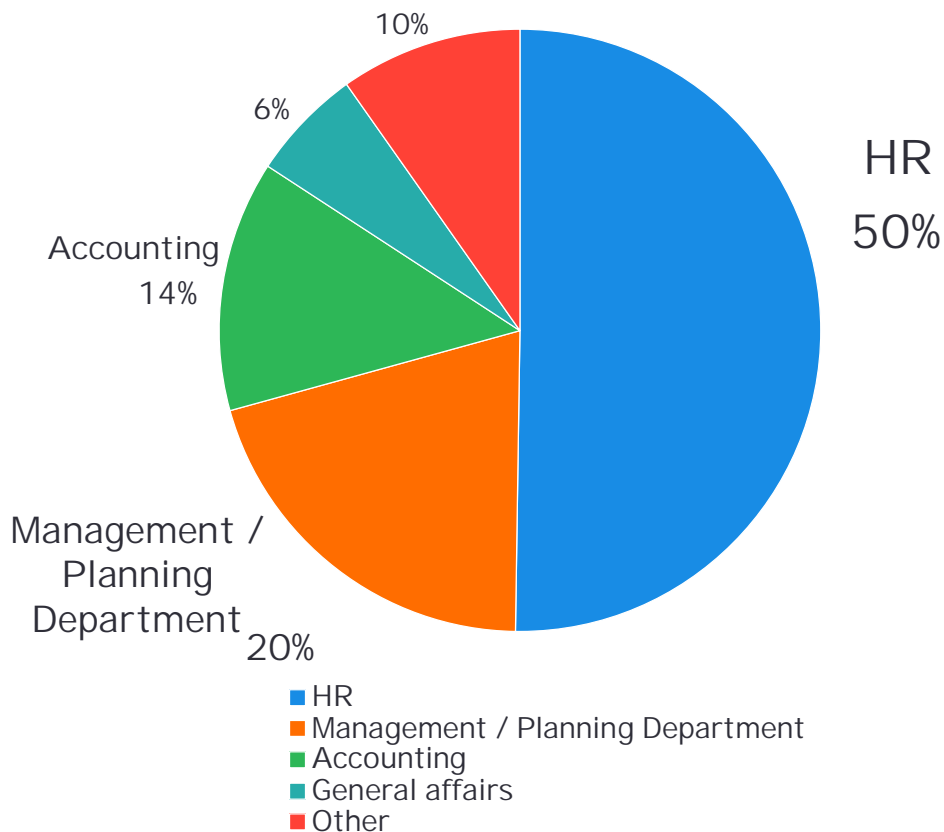


Comment

- As in the first and second surveys, we received responses from many participants.
- A detailed report will be sent separately to those who participated in all three surveys.

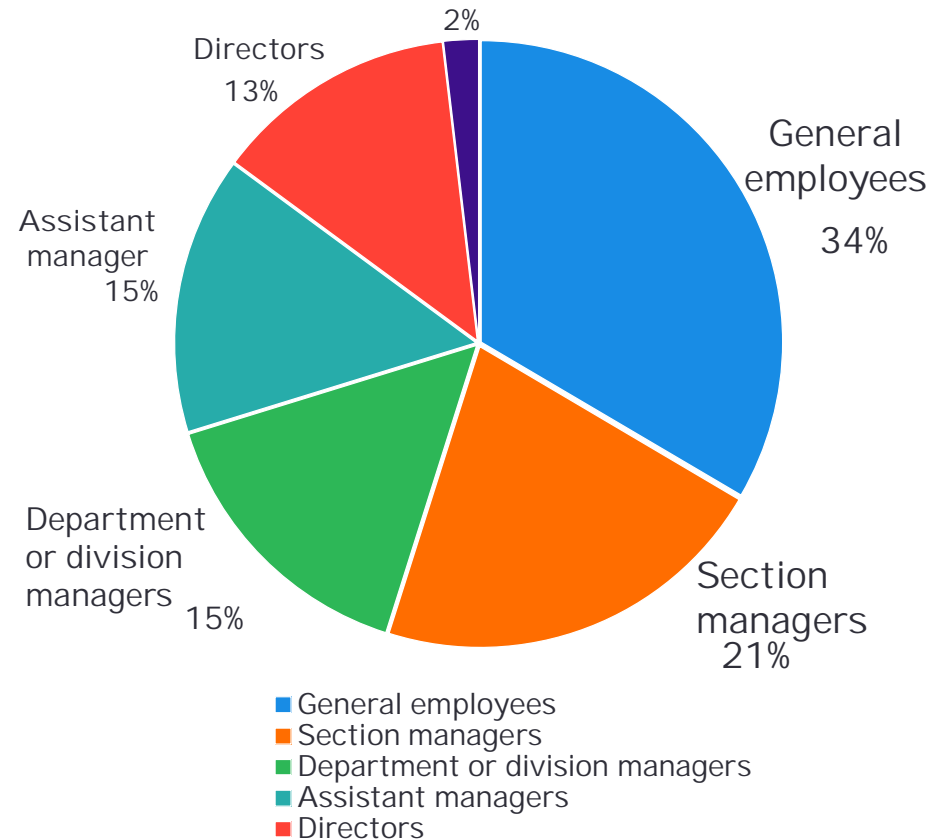
Q1: Please select your department.

Single answer



Q2: Please select your title.

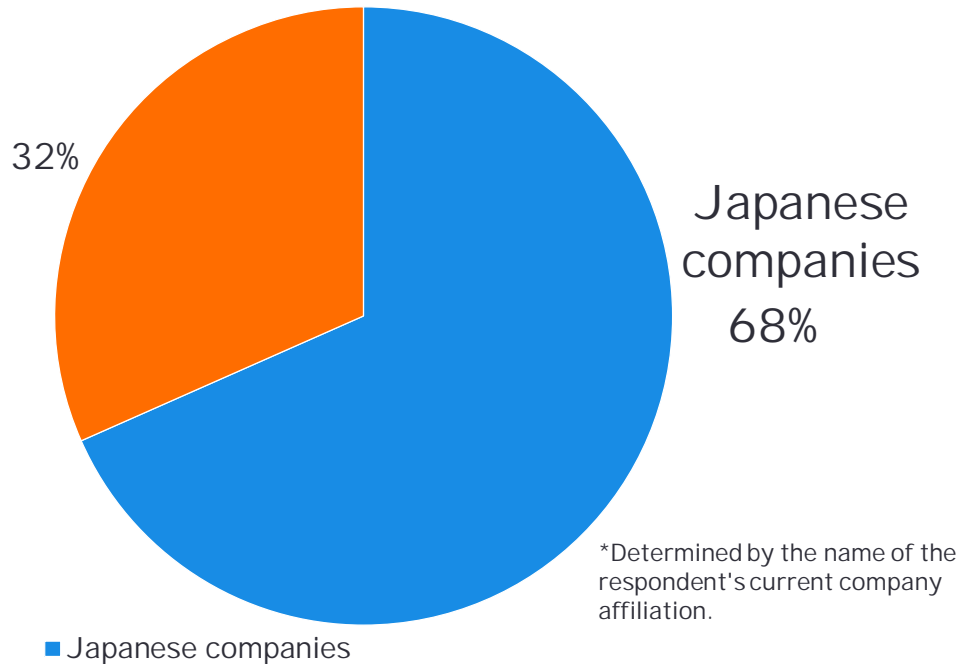
Single answer



2

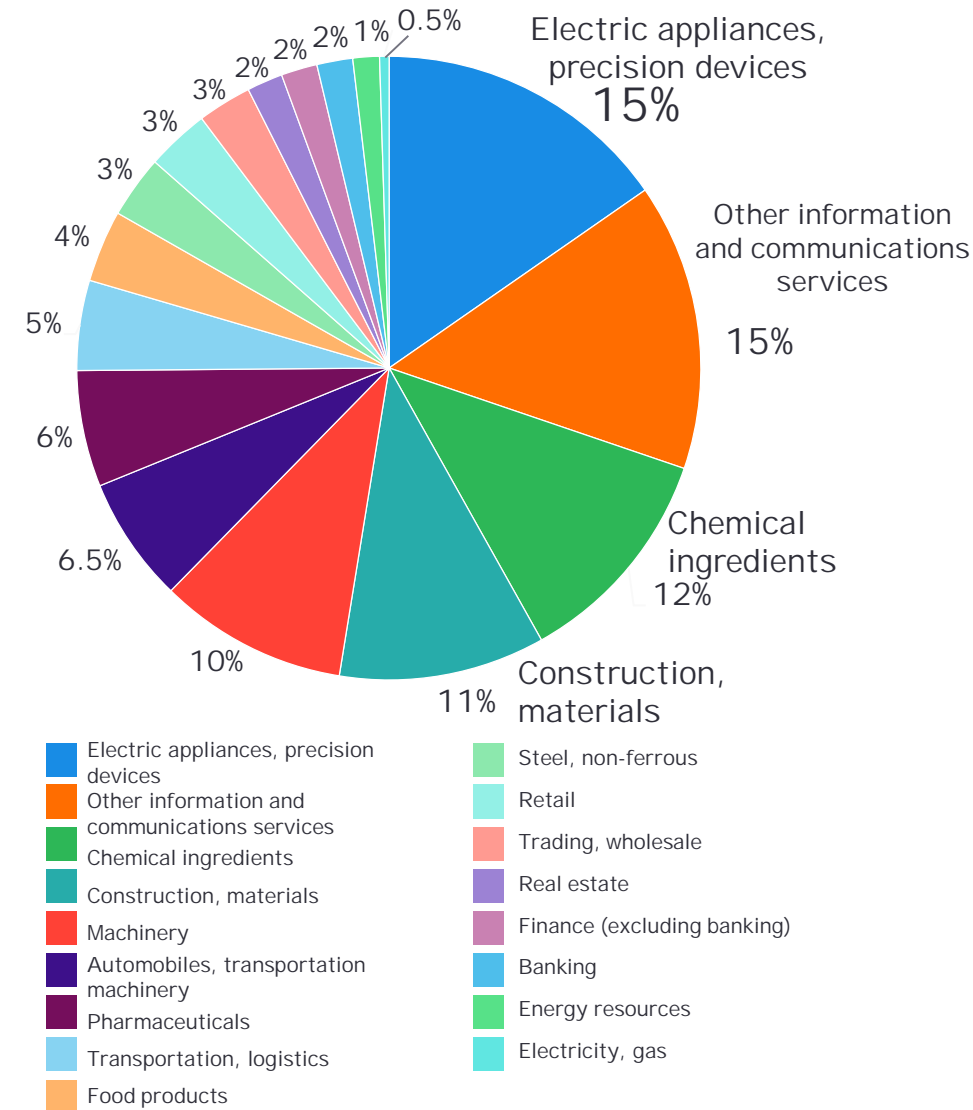
Respondent attributes Corporate nationality and industry

*Based on information from each company's website as of April 2022



- Japanese companies
- Foreign-affiliated companies or local subsidiaries of Japanese companies

(Reference information) Japanese companies (147 companies): Percentage by amount of capital
 Up to JPY100 million: 20 companies (13.5%)
 Up to JPY1 billion: 13 companies (9%)
 Up to JPY10 billion: 31 companies (21%)
 Up to JPY100 billion: 63 companies (43%)
 Exceeding JPY100 billion: 14 companies (9.5%)
 Unknown: 6 companies (4%)



3

Criteria for provision of overseas work allowances

60% provide according to rank, yearly or monthly income, 10% provide all employees equally, over 10% provide no allowance

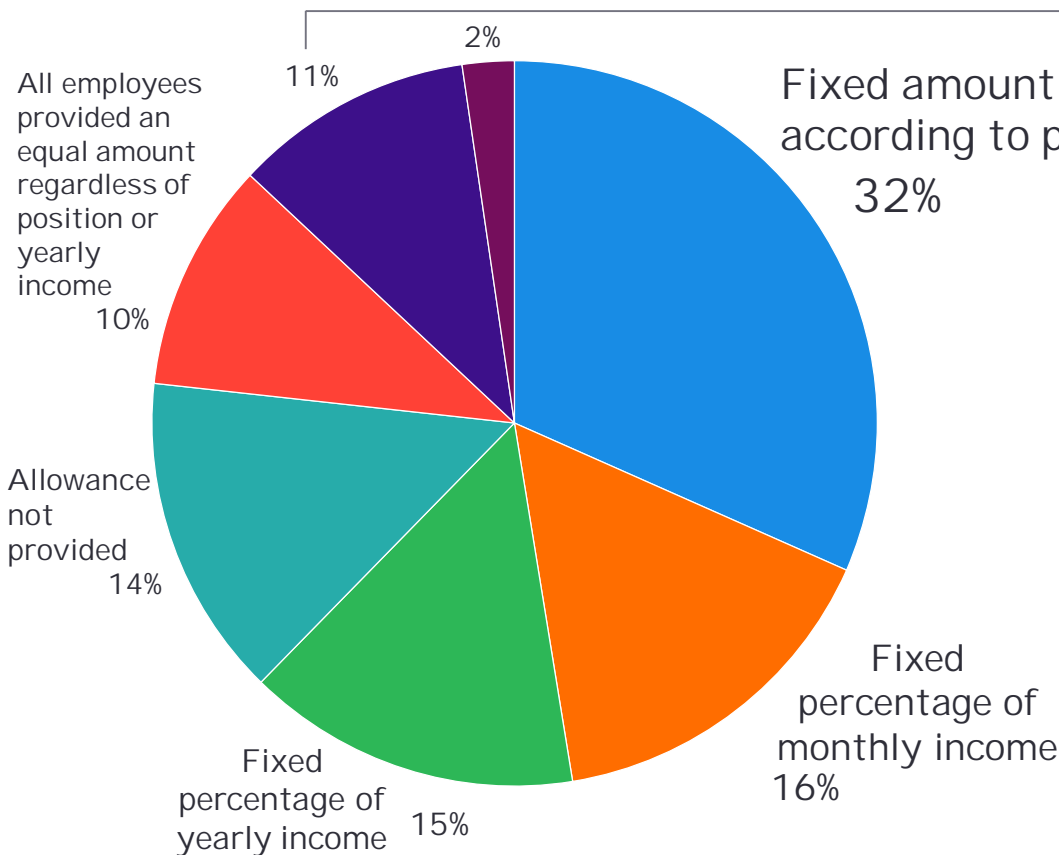


Comment

- 30% of respondents provide fixed amounts for each position, another 30% provide a percentage of employees' monthly or yearly income.
- In addition to the importance of market prices in determining criteria for allowances, keeping current realities in mind when deliberating how one's company values overseas work and the significance of allowance provision is also essential.

Q6: Please indicate the criteria used when providing overseas work allowances.

Single answer



Examples of "another approach":

- Amounts provided are calculated according to family composition and annual income.
- Yearly income determined according to position and duties, without providing individually separated benefits.
- Amounts provided are variable depending on individual circumstances.

Choices	Responses
Fixed amount according to position (Example: JPY150,000/month for department managers, JPY100,000/month for section managers)	68
A fixed percentage of monthly income (Example: monthly income × 20%)	34
A fixed percentage of yearly income (Example: yearly income × 20%)	32
Allowance not provided	31
All employees provided an equal amount regardless of position or yearly income (Example: JPY100,000/month)	22
Determined by another approach	23
Unknown	5
Total	215

5

Cities covered by hardship allowances and factors in determining the criteria for amounts provided

Half of respondents use indices from consulting firms, followed by 14% who use independent criteria and survey results

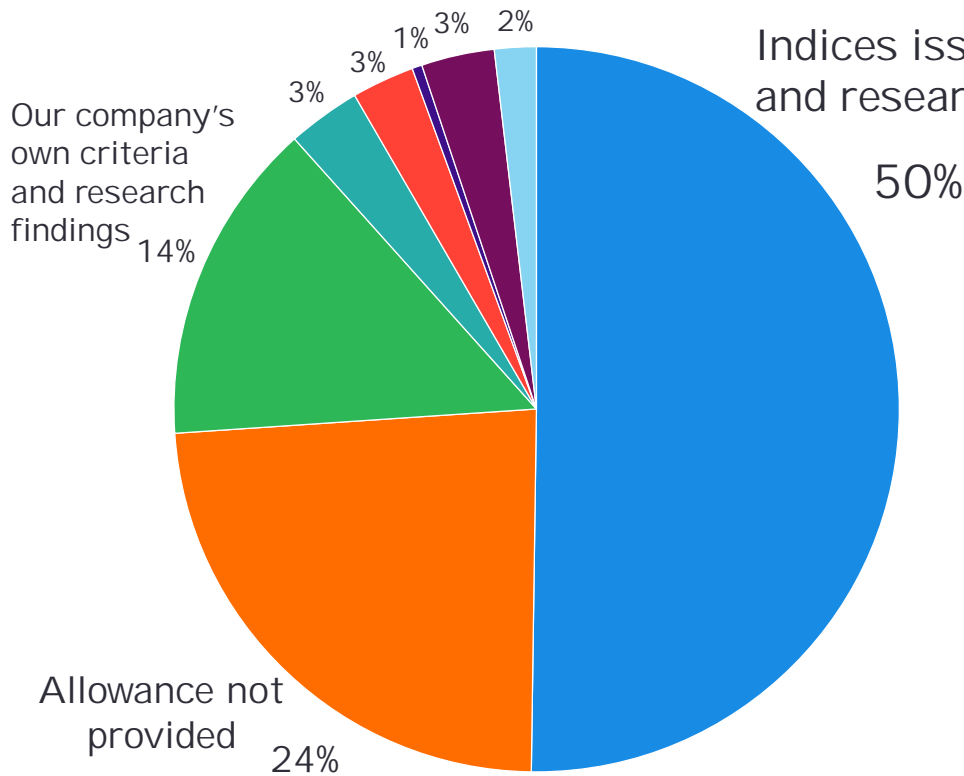


Comment

- It is necessary to keep current realities in mind when deliberating how one's company defines hardship and the methods and frequency for reviewing those deliberations.
- Companies may perceive the hardship of assignments in a city in different ways if their experience of expansion and the precise location to which they are expanding differ, even within the same city.

Q7: What are the most important criteria when determining which cities to cover with hardship allowances and provision amounts?

Single answer



Examples of "other criteria":

- Indices issued by consulting and research firms in addition to the company's own judgment.
- Indices issued by consulting firms are utilized in determining hardship allowances for differences in living conditions, whereas our own company's standards are used in determining allowances for differences in working days.

Choices	Responses
Indices issued by consulting and research firms	108
Allowance not provided	51
Our company's own criteria and research findings	31
Example cases from other companies	7
Opinions of senior management and other high-level executives at headquarters	6
Opinion of the overseas assignee	1
Other criteria	7
Unknown	4
Total	215

7

Criteria for provision of allowances for unaccompanied assignees Approx. 70% of all companies provide allowances, with most using a uniform payment method for all employees

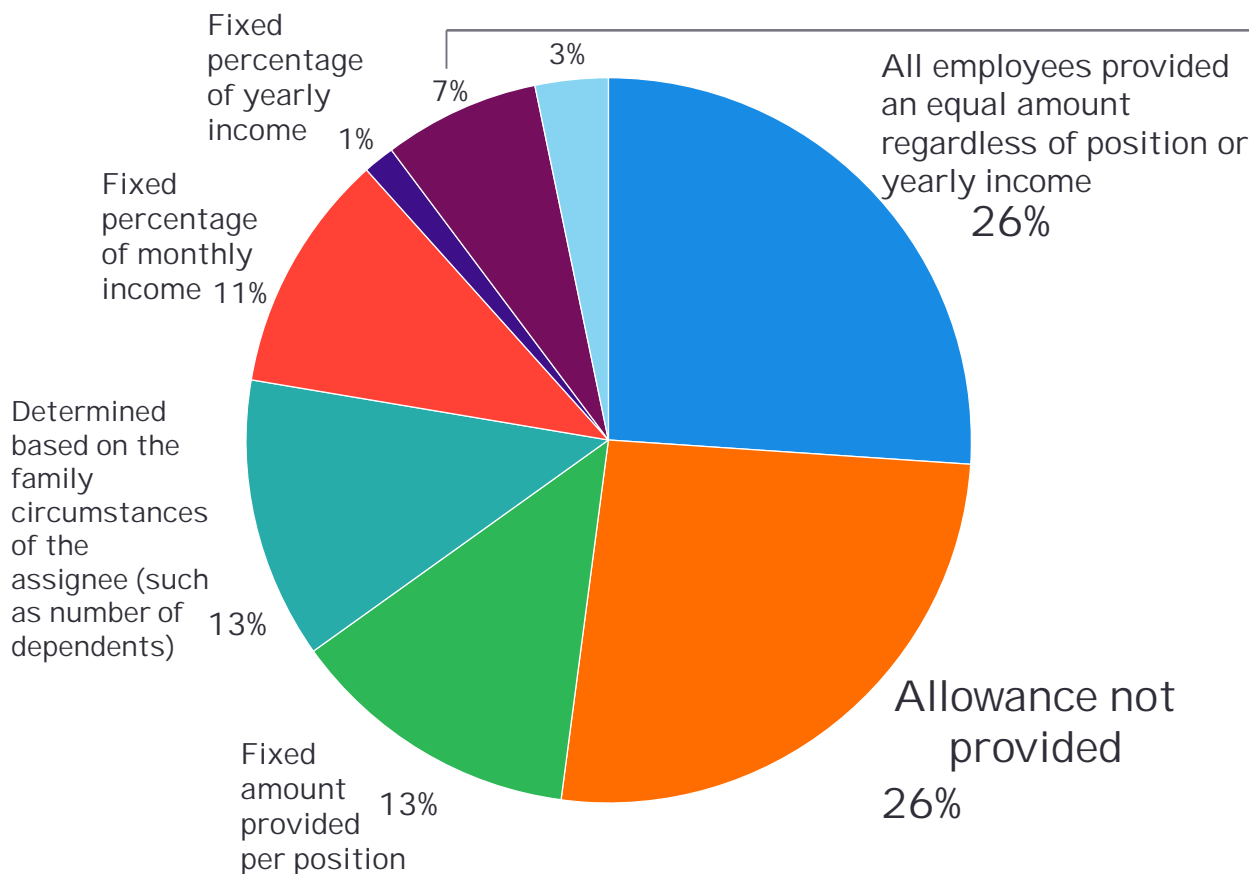


Comment

- A similar number of companies provide all employees an equal amount or provide according to employees' Japan-based compensation (by position, monthly or yearly income), nearly 30% provide no allowance.
- Many companies used payment methods based on "other criteria," such as the number of family members remaining in their home country.

Q8: Please indicate the criteria used when providing allowances for overseas assignees with no accompanying family.

Single answer



Examples of "other criteria":

- Provided according to number of family members remaining in home country relative to assignee's monthly income.
- Equal amount provided to all employees + (household's total living expenses - assignee's living expenses)

Choices	Responses
All employees provided an equal amount regardless of position or yearly income (Example: JPY100,000/month)	56
Allowance not provided	56
Fixed amount according to position (Example: JPY150,000/month for department managers, JPY100,000/month for section managers)	28
Determined based on the family circumstances of the assignee (such as number of dependents)	27
A fixed percentage of monthly income (Example: monthly income × 20%)	23
A fixed percentage of yearly income (Example: yearly income × 20%)	3
Other criteria	15
Unknown	7
Total	215

9

Criteria for provision of overseas position-based allowances

Over half of companies provide no allowance, the majority of providing companies do so according to the assignee's position overseas, less than 10% provide only for top management

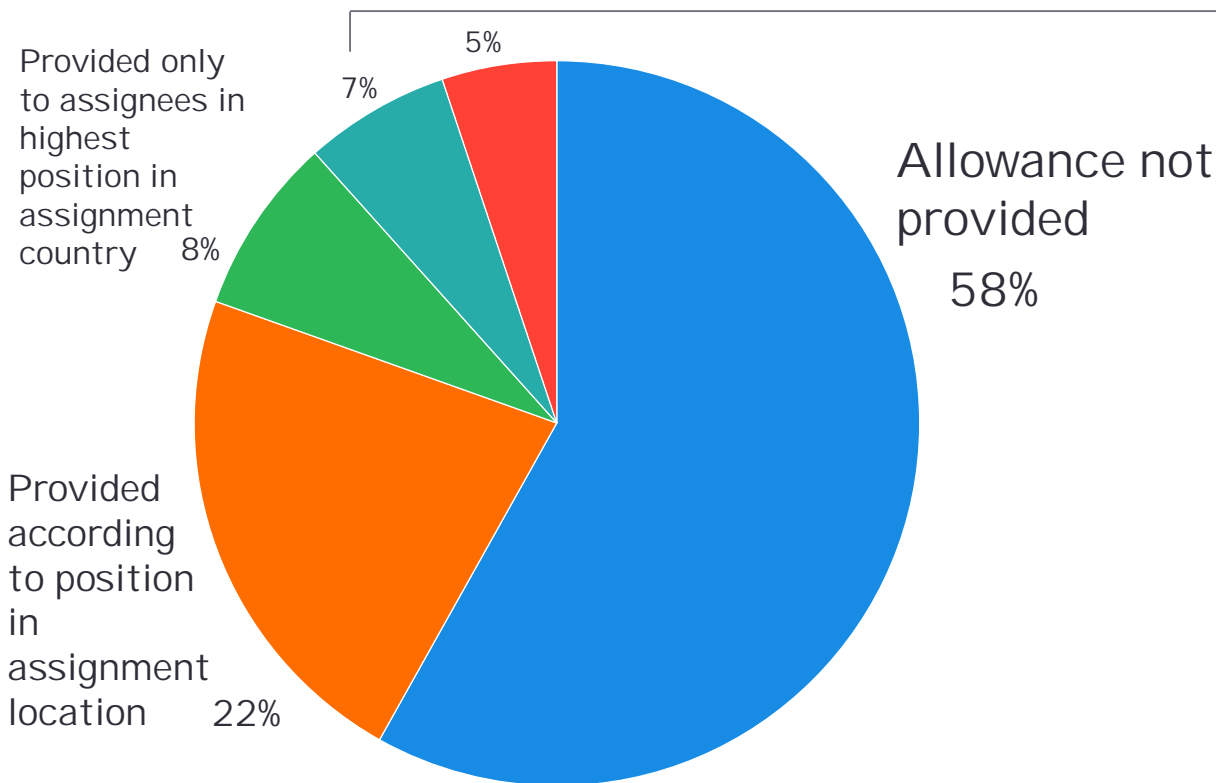


Comment

- When an assignee's position in Japan has remained the same but their role differs in the assignment country, some indicate dissatisfaction that differences in responsibilities and risks are not reflected in their compensation.
- Criteria are difficult to determine in advance because responsibilities vary greatly depending on the size and role of the overseas subsidiary, its net sales, whether it is a joint venture or wholly-owned, etc.

Q9: Please indicate the criteria used when providing allowances for overseas positions?

Single answer



Examples of "another approach":

- Included in the base salary calculation for overseas assignment
- Provided when a non-manager in Japan has been assigned as a manager overseas.
- Position-based allowance in Japan as the criteria.

Choices	Responses
Allowance not provided	125
Provided according to position in assignment location (Example: JPY100,000/month for company presidents, JPY50,000/month for directors)	48
Provided only to assignees in highest position in assignment location	17
Determined by another approach	14
Unknown	11
Total	215

Calculation methods for hypothetical taxes (hypo taxes)

40% of companies use estimates, while nearly 30% perform TEQ* and make exact calculations

*TEQ (tax equalization): A calculation performed after hypo taxes have been estimated and collected from an assignee's monthly income for the purposes of ensuring that the tax burden between the company and the assignee is the same as when the assignee was working in Japan.

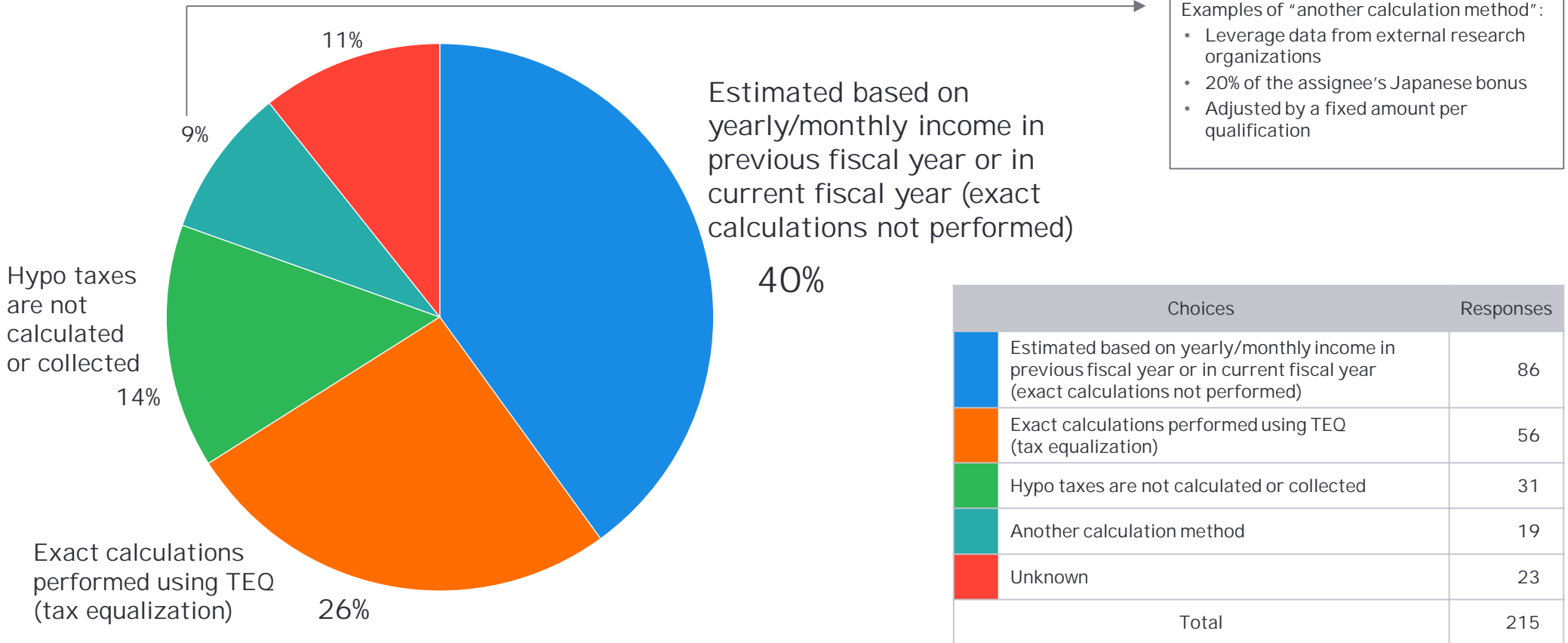


Comment

- Due to the complexity of calculating hypo taxes and the necessity of head office resources for doing so, outsourcing or using a calculation tool are options.

Q11: Please indicate calculation methods for hypo taxes.

Single answer



13

Challenges regarding allowances and salaries for overseas assignees Challenges in the balance sheet approach, living expenses, exchange rates, payment levels, allowances, operations, and taxation

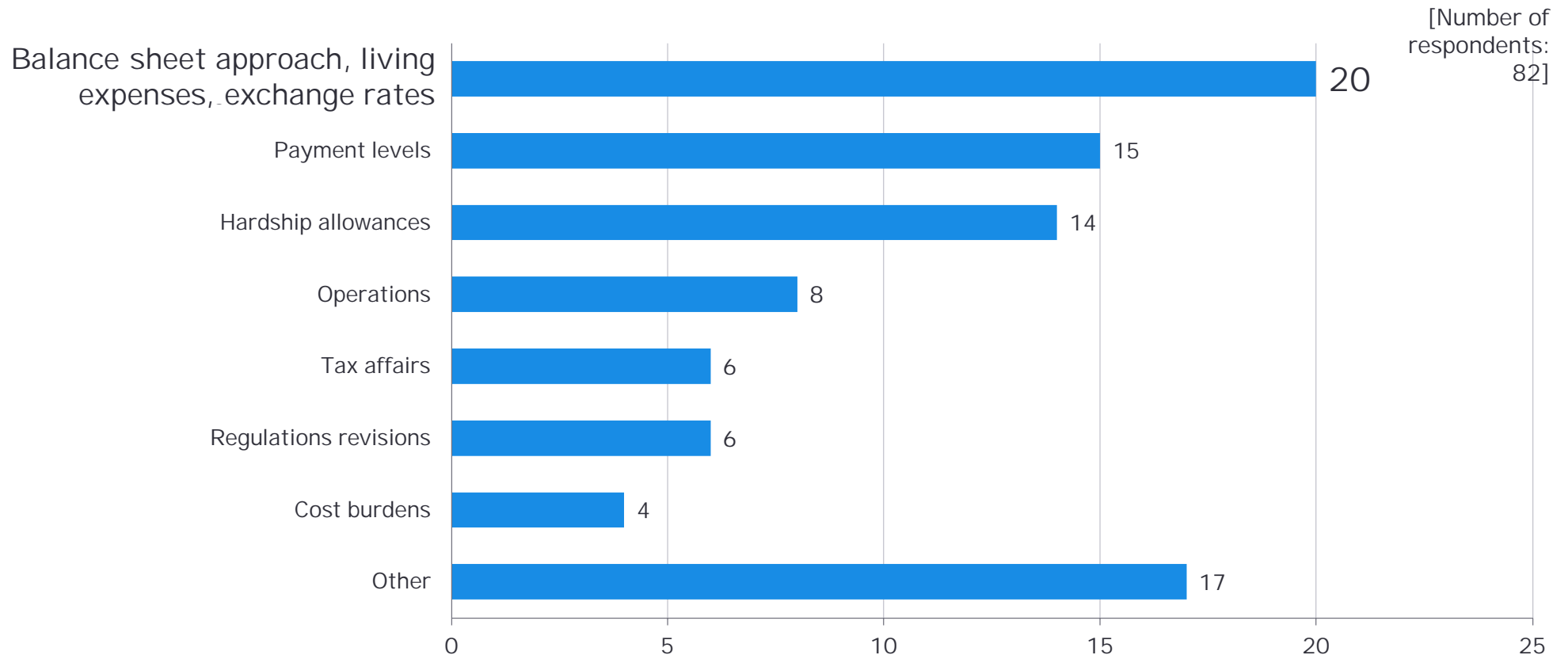


Comment

- The balance sheet approach, cost of living, and exchange rates are challenges when adjusting for fluctuations and providing explanations to assignees.
- Respondents are increasingly interested in how allowances are determined and reviewed, particularly with regard to hardship allowances.
- Respondents indicated concern regarding the appropriateness of allowance and salary payment levels and which indices to use when conducting reviews.

Q13: Please describe any challenges your company is facing regarding allowances and salaries for overseas assignees.

Multiple answers



Challenges regarding allowances and salaries for overseas assignees

Example responses

Balance sheet approach, living expenses, exchange rates, payment levels, allowances, operations

Q13: Please describe any challenges your company is facing regarding allowances and salaries for overseas assignees.

Multiple answers

Balance sheet approach, living expenses, exchange rates

- Calculations are conducted with the balance sheet approach, but assignees find it difficult to understand.
- Assignee agreement: Although the balance sheet approach is used to determine allowances, assignees are dissatisfied with apparent differences between the fluctuations in overseas cost-of-living indices and how they personally experience the cost of living.
- As amounts are calculated in Japanese yen, assignees see the salaries provided by the overseas subsidiary fluctuate with changing exchange rates or experience a sense of unfairness due to the exchange rate.
- Determining the extent to which calculations conducted via the balance sheet approach are fair as compared to domestic salaries. Since deliberations and opinions are made regarding allowances or salaries in isolation from other items, yearly income (including benefits) as a whole is not included in such deliberations.

Payment levels

- Deciding on the scope of allowances to be granted is difficult. If allowances are to be granted, market prices for each allowance are unknown.
- When salaries are revised each year, determining whether overseas salaries should be compensated when overseas salaries decrease due to fluctuations in prices in assignment location and/or in Japan.
- The appropriateness of allowance and salary payment levels is unclear (legacy system has been in place for decades).

Hardship allowances

- Determining which indices to use when a city covered by an allowance has no available index or when there is a discrepancy between indices and information provided by assignees.
- While it is believed that COVID-19 has increased hardship generally speaking, adjusting salaries in accordance with hardship is difficult.
- Determining the frequency of and standards for reviewing hardship allowances.

Operations

- Allowance items are broken down into detailed categories, making it time-consuming for assignees to submit applications and for HR to provide approvals.
- Overseas payroll operations (deliberations regarding reducing man-hours, outsourcing).
- With the number of employees assigned to overseas operating entities increasing, organizing and settling relevant expenditures requires labor from many related parties.

Challenges regarding allowances and salaries for overseas assignees

Example responses

Tax affairs, regulations revisions, cost burdens, and other topics

Q13: Please describe any challenges your company is facing regarding allowances and salaries for overseas assignees.

Multiple answers

Tax affairs

- TEQ settlement for employees who resigned after assignment.
- As approaches to hypo taxes differ among group companies, having case studies from other companies to reference would be helpful in determining whether to unify our approach.

Regulations revisions

- The company has not been able to review its regulations in recent years regarding allowances and compensation, and allowances that are misaligned with actual conditions on the ground remain in place.

Cost burdens

- Having the host entity bear the full cost of the assignment would be ideal, but due to local staff sentiments and other such hurdles, the home entity still currently bears a portion of the costs.

Other

- While company regulations stipulate the allocation ratio of salary paid overseas and salary paid domestically, expatriate employees wish to freely change that ratio.
- Since child allowances provided overseas are based on the assignee's application, there have been times when certain information could not be ascertained which resulted in the allowance being received twice along with the salary.
- Handling social insurance: Although employees maintain eligibility for social insurance in Japan when they are assigned to a country with which Japan has signed a bilateral agreement, there are no clear guidelines for determining monthly standard remuneration amounts; Social security for employees assigned to countries with which Japan has not signed a bilateral agreement is determined in a case-by-case basis, which makes ensuring fairness among assignees difficult.

Scope of provision for kindergarten and daycare expenses for accompanying children

90% of respondents provide for a part or for all expenses

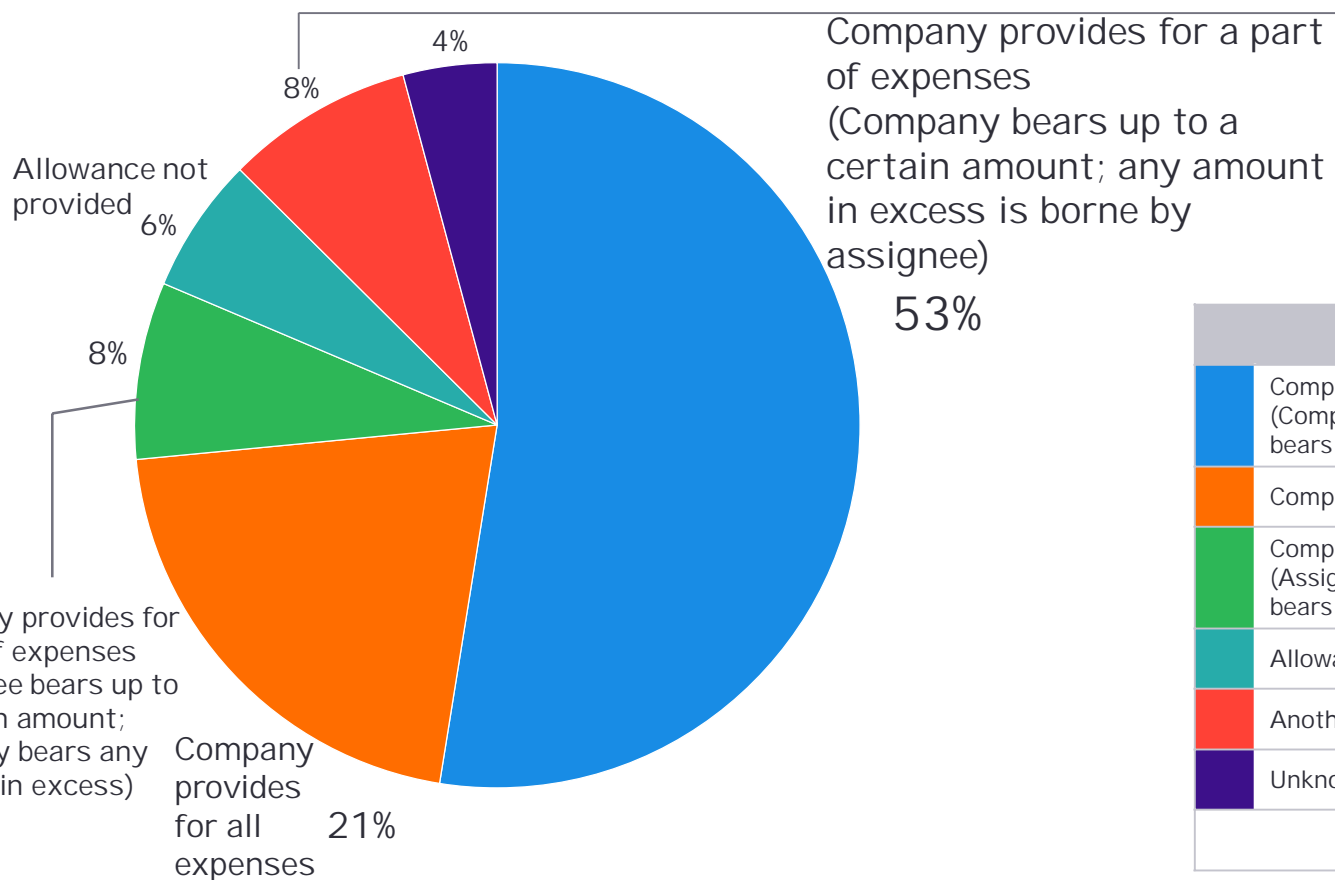


Comment

- As kindergarten is not compulsory education, companies have varying approaches to allocating such expenses.
- In many cases of “other payment approaches,” the company bears the full amount of a standard school (kindergarten) tuition, but employees must bear the equivalent amount of any additional education expenses they would incur in Japan.

Q16: Please indicate the scope of provision for kindergarten and daycare expenses for accompanying children.

Single answer



Examples of “another approach”:

- Assignees bear the educational expenses of a Japanese school when one is available in the assignment location, or the equivalent of the expenses of a private school in Japan if a Japanese school is not available in the assignment location, with the company bearing any expenses in excess of that amount up to a maximum set by the company.

Choices	Responses
Company provides for a part of expenses (Company bears up to a certain amount; assignee bears any amount in excess)	113
Company provides for all expenses	45
Company provides for a part of expenses (Assignee bears up to a certain amount; company bears any amount in excess)	17
Allowance not provided	13
Another approach	18
Unknown	9
Total	215

Plans for reviewing/creating new regulations for overseas assignees, timing of most recent review
 30% of companies have reviewed regulations in the past year or are considering doing so within the next year

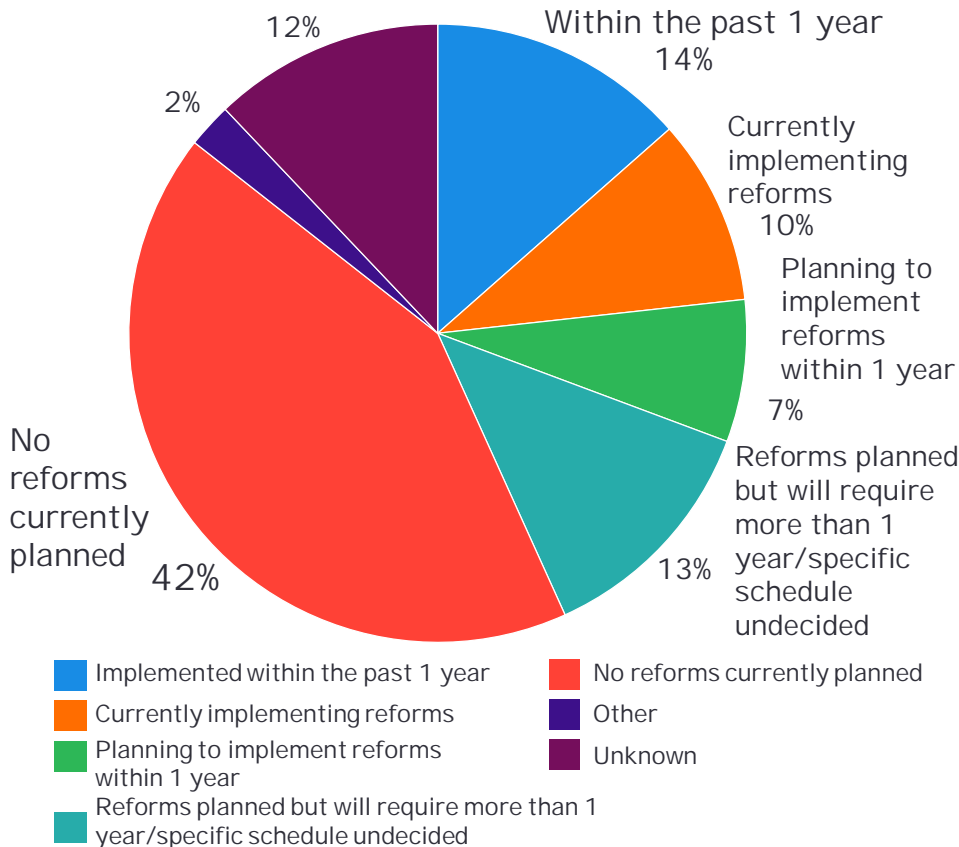


Comment

- Outdated rules and regulations are not in line with actual circumstances, leading to dissatisfaction among assignees, various risks, and the necessity for speedy review.
- Approximately half of respondents have reviewed their regulations within the past 5 years.

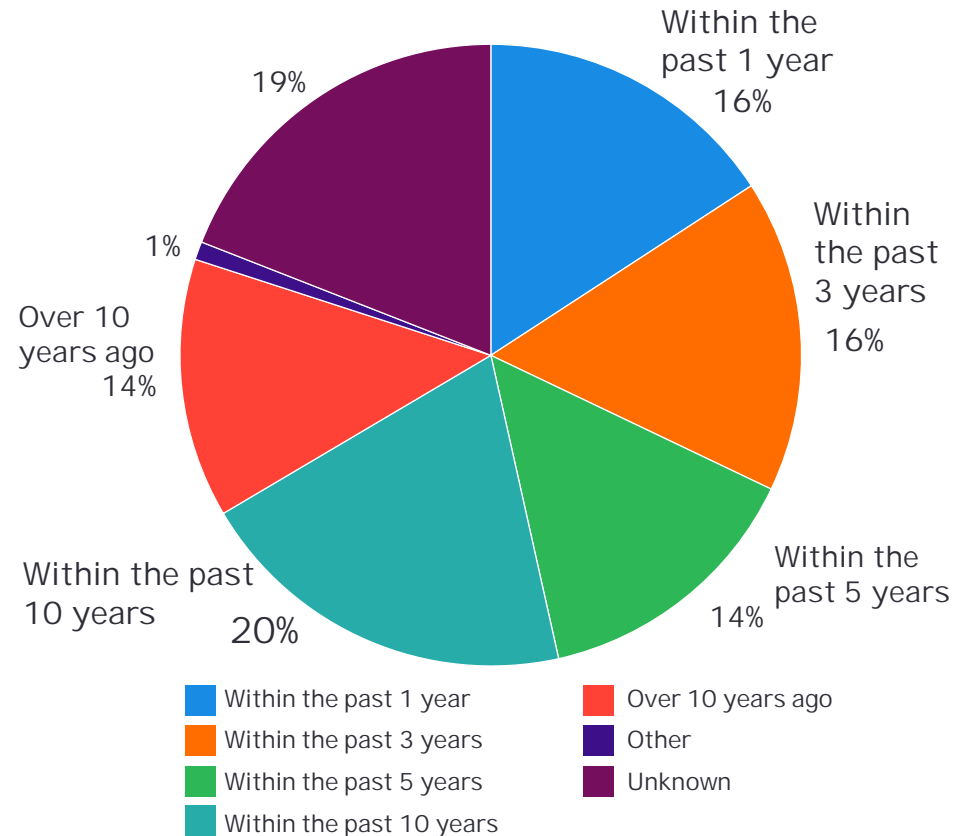
Q19: Please indicate your company's plans for comprehensively reforming or creating new regulations for overseas assignees.

Single answer



Q20: When did your company most recently implement comprehensive reforms or create new regulations for overseas assignees?

Single answer



21

Reasons and objectives for reviewing/creating new regulations for overseas assignees

Most common response (over 50%) was “to improve policies and procedures for assignees”

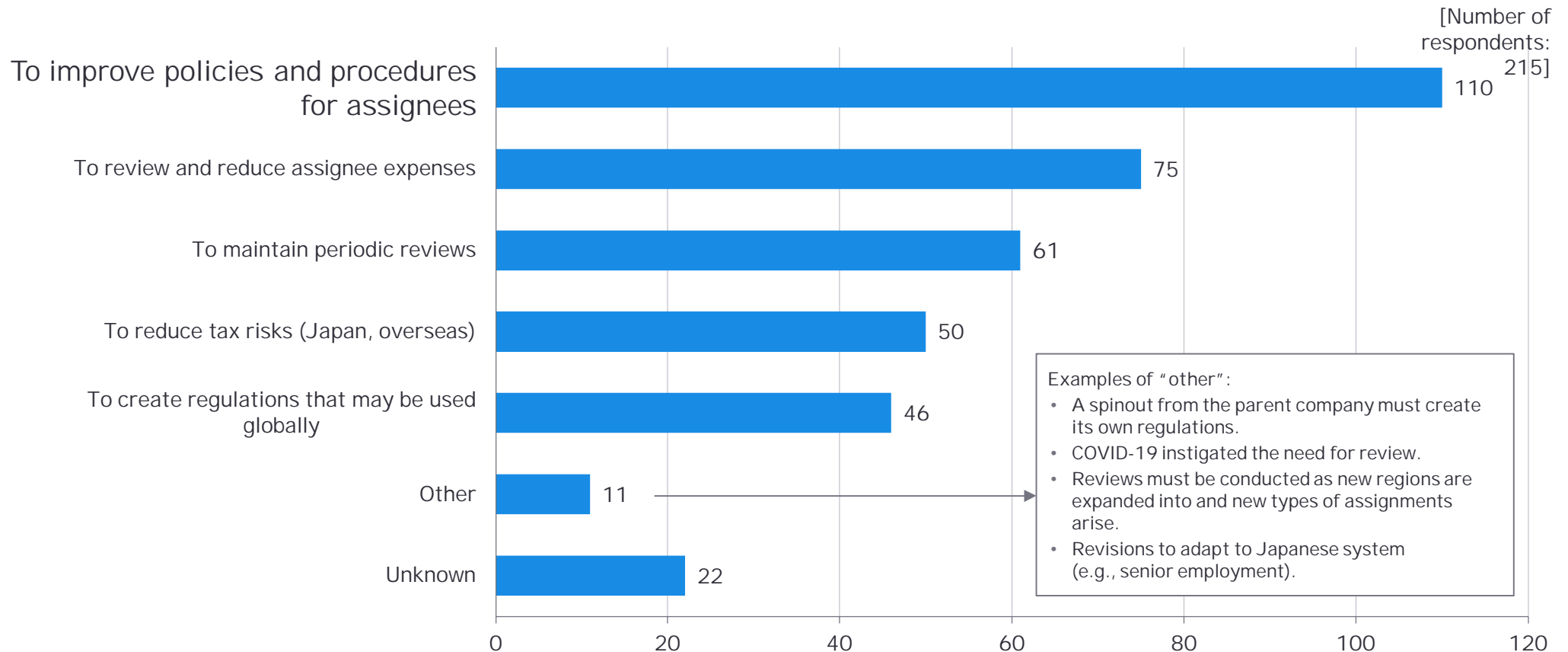


Comment

- Improving policies and procedures for assignees was the most common objective, with reviewing assignment expenses, standardizing global practices, and reducing tax risks also indicated as common objectives.

Q21: Please indicate your reasons and objectives for reviewing and creating new regulations for overseas assignees.

Multiple answers



Challenges when reviewing/creating new regulations for overseas assignees

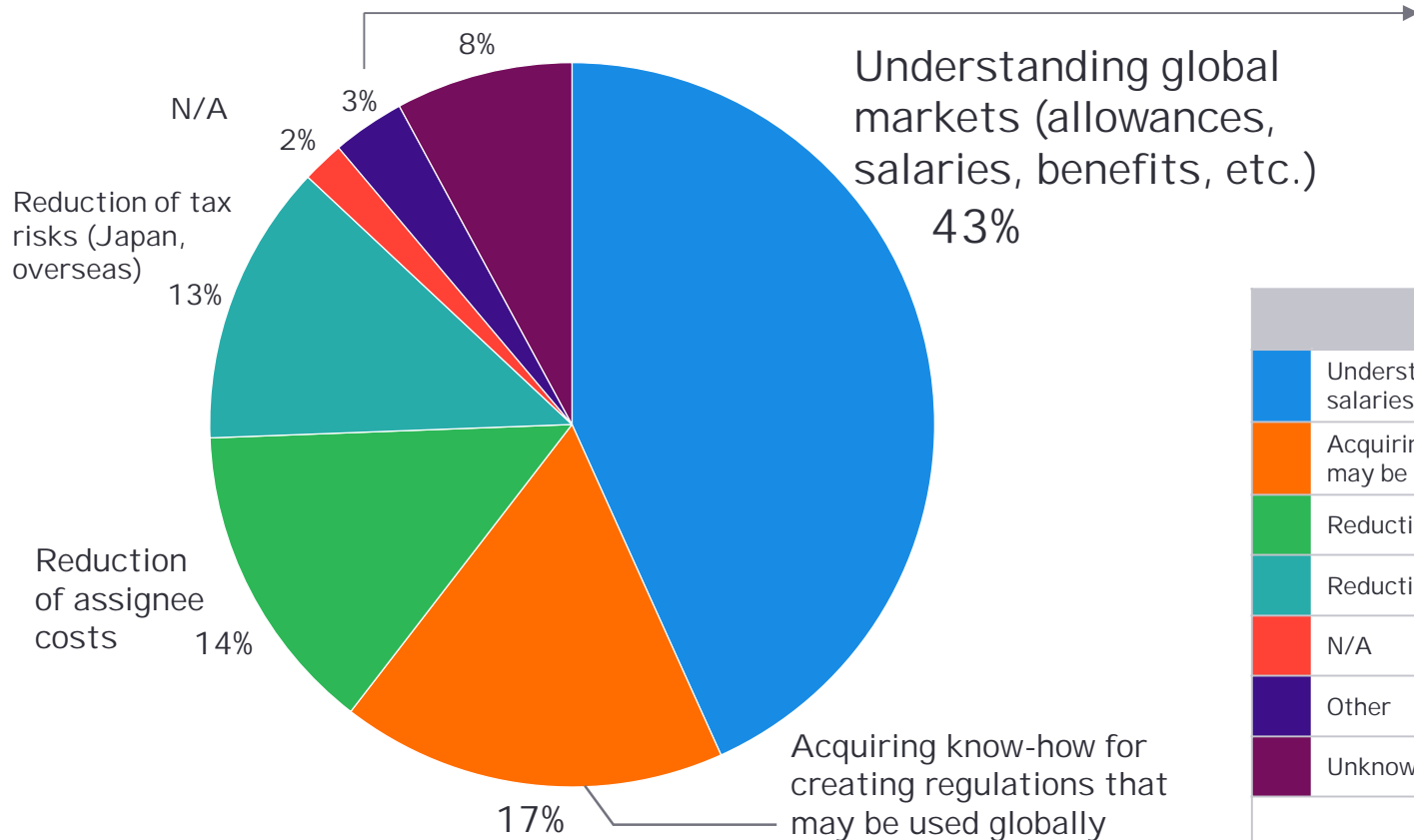
Over 40% face difficulties in understanding the global market, approximately 20% face difficulties in acquiring global standardization know-how



- Understanding the global market tops the list of challenges, followed by insufficient know-how in creating globally standardized rules, cost reduction, and handling tax risks.
- Results highlight the difficulty of handling challenges in-house in terms of resources, expertise, and access to case studies from other companies.

Q22: Please indicate the most difficult challenge your company faces in implementing reviews and creating new regulations for overseas assignees.

Single answer



Examples of "other":

- Reduction of tax and legal risks
- Appropriateness of country-specific regulations
- Handling the diversification of employees' values and working styles
- Responding to circumstances and changes around world
- Implementable resources do not exist
- Agreement and satisfaction of employees

Choices	Responses
Understanding global markets (allowances, salaries, benefits, etc.)	93
Acquiring know-how for creating regulations that may be used globally	37
Reduction of assignee costs	30
Reduction of tax risks (Japan, overseas)	27
N/A	4
Other	7
Unknown	17
Total	215

Challenges regarding overseas trainees

Cost burdens, tax risks, and other issues are wide-ranging

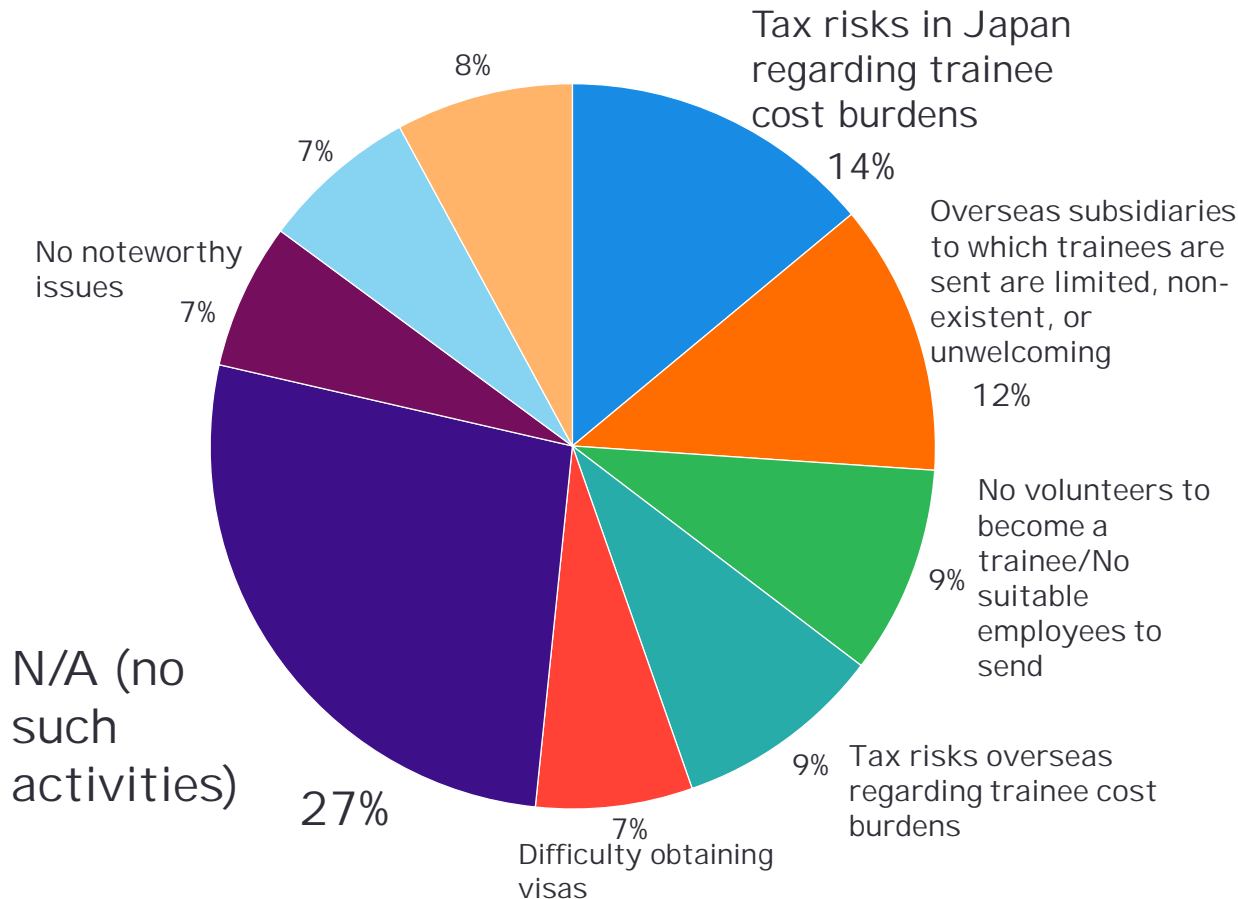


Comment

- Tax risks stemming from the burden of trainee costs at head and overseas entities are the greatest challenge, although respondents are also concerned about obtaining visas.
- Considering both the tax risks in Japan as well as the training location is crucial when establishing a trainee system, and consultations are rapidly increasing.

Q23: Please indicate your company's greatest challenge when assigning an employee overseas as a trainee.

Single answer



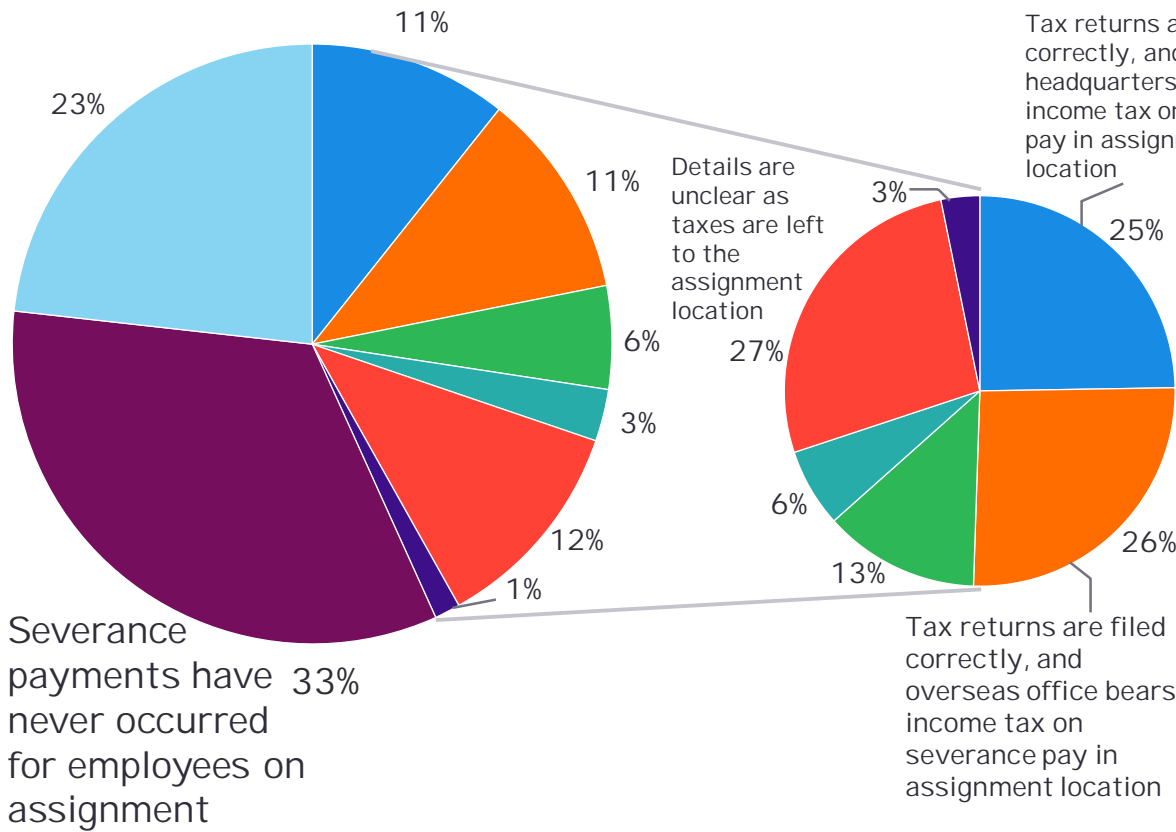
Choices	Responses
Tax risks in Japan regarding trainee cost burdens	30
Overseas subsidiaries to which trainees are sent are limited, non-existent, or unwelcoming	26
No volunteers to become a trainee/No suitable employees to send	20
Tax risks overseas regarding trainee cost burdens	20
Difficulty obtaining visas	15
N/A (no such activities)	58
No noteworthy issues	14
Other	15
Unknown	17
Total	215

25

Income tax returns in the assignment country for severance pay provided during overseas assignments
 Excluding non-applicable cases, most companies correctly filed and paid taxes in assignment locations

Q24-1: Please indicate how your company approaches income tax returns in the assignment country for severance pay provided during overseas assignments.

Single answer



Choices	Responses
Tax returns are filed correctly, and Japanese headquarters bears income tax on severance pay in assignment location	23
Tax returns are filed correctly, and overseas subsidiary bears income tax on severance pay in assignment location	24
Tax returns are filed correctly, and assignee bears income tax on severance pay in assignment location	12
Tax returns are filed correctly, although it is unclear whether the head or overseas entity bears income tax on severance pay in assignment location	6
Details are unclear as taxes are left to the assignment location	25
Was unaware that taxes must be filed in assignment location	3
Severance payments have never occurred for employees on assignment	72
Unknown	50
Total	215

Challenges concerning regulations for overseas assignees, programs for overseas trainees, and severance pay while on assignment

Example responses

Q27: Please indicate challenges your company faces regarding regulations for overseas assignees, programs for overseas trainees, and severance pay while on assignment.

Multiple answers

Training program

- New employees or employees within their third year of employment are sent overseas as trainees, but eligible countries are limited due to visa requirements. In addition, employees who were scheduled to be assigned overseas as trainees resigned due to procedural difficulties in some cases.
- Tax risks in Japan and assignment locations when establishing an overseas training program.
- Establishing an overseas training program is currently under consideration, but determining the extent of differences in policies and procedures for assignees is difficult.
- Trainee turnover is high.

Regulations

- The necessity of globally unifying regulations for overseas assignments.
- Regulations have been prepared for short-term overseas assignments but are not actively used.
- We would like to consider a revision in the salary systems with respect to overseas assignment regulations since they were set at too high a level or otherwise designed inappropriately, but deliberating and designing a system that ensures no loss/no gain as well as appropriateness is difficult.

Resignations while on assignment

- Special consideration is required for entering into a reemployment contract in Japan following statutory retirement.
- A lack of uniform measures in instances where severance pay while on assignment is taxed by the assignment country leads to difficulties.
- If a severance payment system is applied to overseas personnel, will it have the desired effect?

Tax affairs

- The lack of firm guidelines on how to approach cost effectiveness and tax risk.

Short-term overseas assignees and long-term business travelers (handling of tax payments in assignment locations)

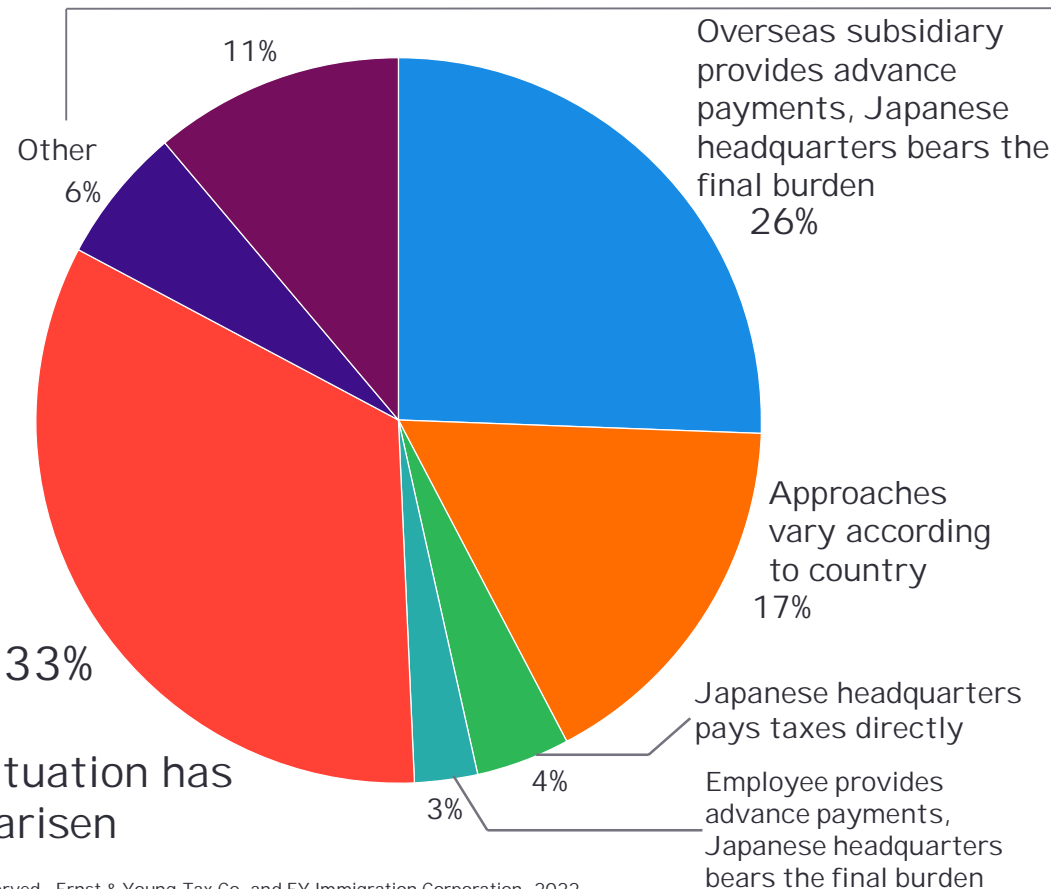
Most often overseas subsidiaries provide advance payments with Japanese headquarters bearing the final burden



- Tax items often went undeclared as a result of a lack of understanding of basic matters, such as errors in the calculation method of the number of tax-exempt days for short-term visitors and the fact that tax exemption is not applied when falling under PE.

Q29: Please indicate how your company handles tax payments for short-term assignees and long-term business travelers when tax obligations arise in assignment locations.

Single answer



Examples of "other":

- When tax obligations arise, switching to treating the person as an expatriate employee and having the overseas subsidiary bear the burden.
- Japan headquarters pays taxes for long-term business travelers, overseas subsidiary pays for short-term assignments.
- Overseas subsidiary pays taxes and bears the final burden.

Choices	Responses
Overseas subsidiary provides advance payments, Japanese headquarters bears the final burden	55
Approaches vary according to country	36
Japanese headquarters pays taxes directly	9
Employee provides advance payments, Japanese headquarters bears the final burden	6
This situation has never arisen	72
Other	13
Unknown	24
Total	215

Handling occurrences of double taxation between Japan and assignment locations

Over 30% of companies avoid double taxation by filing a tax return in Japan and applying the foreign tax credit

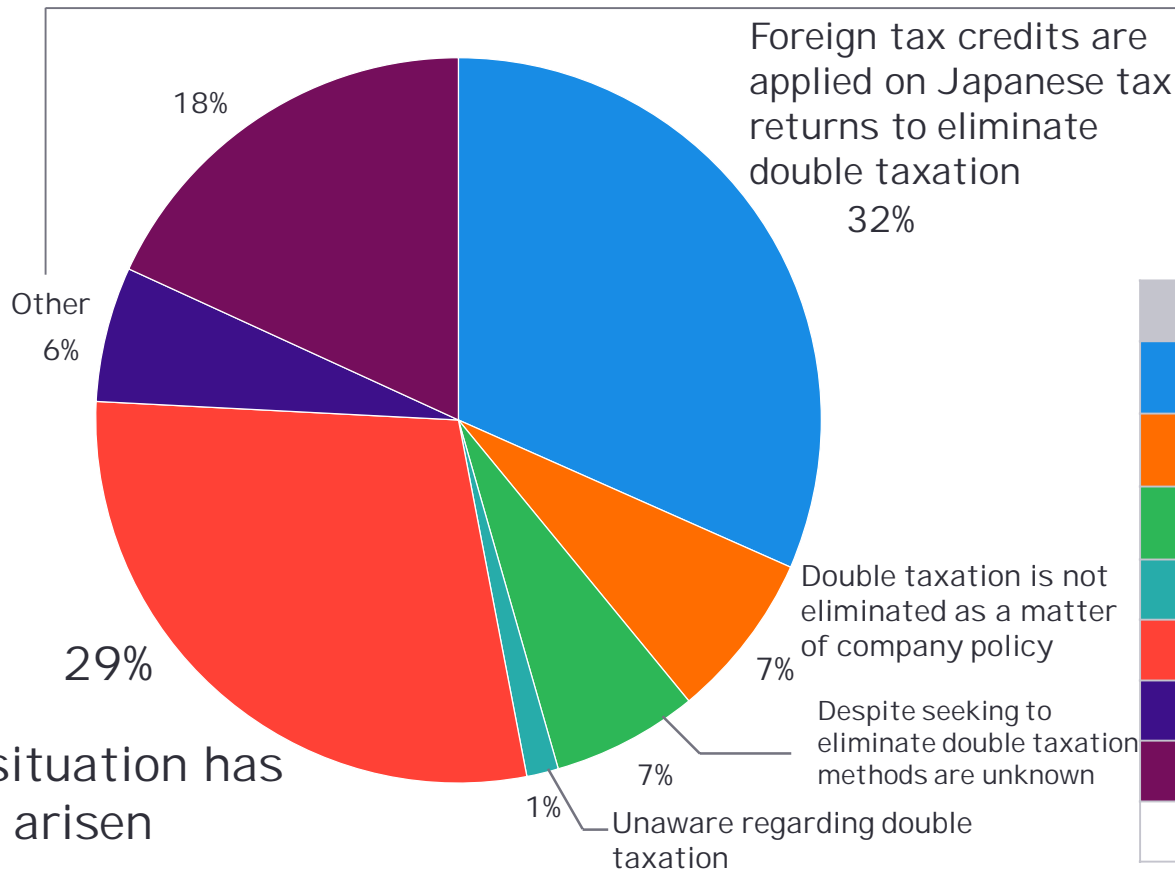


Comment

- While the application of foreign tax credits is effective in eliminating double taxation, making decisions after considering the balance of tax payments is important.

Q30: When tax obligations arise in assignment locations, how does your company handle cases of double taxation in Japan and the assignment country?

Single answer



Examples of "other":

- We request a preliminary consultation if the number of days spent in the business trip destination could possibly exceed 183 days, and we coordinate with overseas authorities to pay taxes as necessary in the event a trip exceeds 183 days.
- Determined on a case-by-case basis depending on the amount of taxes paid.

Choices	Responses
Foreign tax credits are applied on Japanese tax returns to eliminate double taxation	68
Double taxation is not eliminated as a matter of company policy	16
Despite seeking to eliminate double taxation, methods are unknown	14
Unaware regarding double taxation	3
This situation has never arisen	62
Other	13
Unknown	39
Total	215

This situation has never arisen

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