

Room for Reform: The Legal Framework for Nonprofit Organizations in Japan

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Executive Summary

This white paper examines the current legal and institutional framework governing nonprofit organizations in Japan, with a focus on emerging challenges and reforms needed to strengthen the sector. It highlights systemic issues that cut across different nonprofit legal forms; analyzes how these issues impact the effectiveness and sustainability of nonprofit organizations; and presents recommendations for reform that aim to ensure that Japan's nonprofit legal framework can adapt to the increasing complexity, diversity, and dynamism of civil society. An overview of different nonprofit legal entities is provided in the annex for reference.

Overview of Japan's Nonprofit Sector

A defining characteristic of Japan's nonprofit sector is institutional fragmentation, which stems from the historical introduction of multiple legal entities, as follows:

- General Incorporated Associations and General Incorporated Foundations
- Public Interest Corporations (Public Interest Incorporated Associations and Public Interest Incorporated Foundations)
- Specified Nonprofit Corporations
- Social Welfare Corporations
- Private School Corporations
- Medical Corporations
- Religious Corporations
- Rehabilitation Corporations
- Charitable Trusts

(For further details on each legal entity, see the Annex.)

Each of these entities is subject to different supervisory authorities, establishment requirements, and tax treatments, resulting in a complex legal framework for the nonprofit sector.

This diversity reflects the unique characteristics of fields such as education, welfare, religion, and healthcare. At the same time, institutional fragmentation undermines consistency and coherence across systems, making it difficult for organizations to select or transition to the most appropriate legal form as they grow. The choice of legal form often directly determines the availability of administrative procedures and tax benefits, constraining overall flexibility of the sector.

Compared to countries with unified certification systems such as the U.S. 501(c)(3) regime or the U.K. charity framework, Japan's nonprofit legal system lacks flexibility and transparency.¹ Eligibility for donation-related tax benefits is narrowly defined and subject to strict conditions, which has been criticized as a barrier to the development of a donation culture.² Consequently, Japan's total donations as a share of GDP lag far behind those of Western countries (JFRA 2021).³

Governance and tax-related issues persist, making it essential to first clarify the diversity and structural challenges of Japan's nonprofit legal framework as a foundation for discussing future reforms.

Key recommendations made in this paper include:

(1) ESTABLISH A UNIFIED LEGAL FRAMEWORK FOR NONPROFIT CORPORATIONS:

Integrate the current complex and fragmented legal systems governing nonprofit entities and facilitate transitions between different legal forms. This would enable flexible organizational development according to the size and purpose of each entity.

(2) INTRODUCE PROPORTIONAL REGULATION:

Introduce simplified reporting and certification procedures for small organizations to reduce excessive administrative burdens. This will help promote the sustainability of community-based and grassroots organizations.

1 U.S.—Under a unified federal regime, most charities obtain 501(c)(3) recognition by filing Form 1023 or, if eligible, the streamlined Form 1023-EZ (electronic filing via Pay.gov). Donors may claim tax deductions, and annual Form 990 disclosures underpin transparency.

U.K.—In England and Wales, charity registration is centralized with the Charity Commission (online), typically required where income exceeds £5,000 or for CIOs; charities must have exclusively charitable purposes for the public benefit.

2 See e.g., "Tax Deductions and the Myth of the 'No-Donation Culture,'" Japan Times, March 8, 2010; "Why Japan Lacks a Donation Culture," Japan Fundraising Association, 2016; Ito & Pilot (2015), "Why Are Nonprofit Organizations Financially Strained in Japan?"

3 The total amount of charitable donations was ¥54.5948 trillion in the United States, ¥1.4878 trillion in the United Kingdom, and ¥1.2126 trillion in Japan. As a share of nominal GDP, the figures were 1.55% for the U.S., 0.47% for the U.K., and 0.23% for Japan (JFRA, 2021).



Eligibility for donation-related tax benefits is narrowly defined and subject to strict conditions, which has been criticized as a barrier to the development of a donation culture. Consequently, Japan's total donations as a share of GDP lag far behind those of Western countries.

(3) EXPAND CHARITABLE TRUST AND DONOR-ADVISED FUND SYSTEMS:

Develop a more comprehensive framework for charitable trusts and Donor-Advised Fund (DAFs) to diversify giving by individuals and corporations. A system that balances flexibility and transparency in trust management is essential.

(4) PROMOTE INFORMATION DISCLOSURE AND OPEN DATA:

Standardize financial and activity data of nonprofit organizations and make them easily accessible to the public. Enhanced transparency will strengthen public trust and encourage charitable giving.

(5) EXPAND AND SIMPLIFY TAX INCENTIVES:

Broaden the eligibility of organizations for tax-deductible donations, introduce uniform deductions for small donations, and simplify procedures for bequests and asset-based giving. A well-designed system is key to fostering a broader culture of philanthropy.

(6) FOSTER A CULTURE OF GIVING AND PHILANTHROPIC EDUCATION:

Promote understanding of the value of giving and civic participation in school and through financial education. Build a social environment where donations are viewed not as exceptional acts but as part of everyday life.

1. Historical Development of Japan's Charitable and Nonprofit Corporation Systems, Including Tax and Recent Reforms

In Japan's civil society, systems governing charitable and nonprofit legal entities have gradually taken shape since the Meiji era. Before the introduction of a modern corporate legal framework, local communities were supported by spontaneous associations known as *kō* and *za*—*kō* being religious or mutual-aid groups and *za* being guilds organized by specific occupational groups. Although these entities played public roles, no legal mechanism existed to grant them juridical personality.

With the enactment of the Meiji Civil Code in 1896, the legal framework for *shadan hōjin* (incorporated associations) and *zaidan hōjin* (incorporated foundations)—collectively known as Article 34 Corporations—was established. This allowed organizations engaged in charitable activities in diverse fields such as education, charity, academia, religion, and culture to obtain corporate status. Following World War II, as Japan restructured its social systems, sector-specific nonprofit corporation systems were introduced under special legislation. Examples include: the 1949 Private Schools Act, which established the system for private school corporations; the 1950 Medical Care Act and Offenders Rehabilitation Services Act (now the Offenders Rehabilitation Act), which introduced medical corporations and rehabilitation corporations; and the 1951 Social Welfare Services Act (now the Social Welfare Act) and Religious Corporations Act, which provided for social welfare corporations and religious corporations. These developments expanded institutional platforms for charitable activities in each specialized field.

In 1922, the Trust Act was enacted to formally introduce the system of charitable trusts (*kōeki shintaku*). This legal innovation created a framework for using entrusted assets to carry out public benefit projects. Typically administered by trust banks as trustees, this system allowed for flexible implementation of charitable activities in accordance with the donor's intent. Unlike public interest corporations, charitable trusts offered a non-corporate structure for pursuing public objectives. However, despite its institutional flexibility, the use of charitable trusts remained limited. Challenges included the legal restriction that only trust banks could serve as trustees and the administrative complexity of operating a trust (Watanabe, 2023).

In the postwar period, Japan's nonprofit legal framework developed under the approval and supervision of competent government ministries. However, since the 1990s, a series of major institutional reforms have been carried out in response to the rise of citizen-led

charitable activities and growing calls for deregulation. In 1998, the Act on Promotion of Specified Nonprofit Activities came into force, introducing a legal form known as the Specified Nonprofit Corporation (SNC), which could be established through relatively simple procedures. This law was enacted in response to the surge of volunteerism following the 1995 Great Hanshin-Awaji Earthquake and represented a groundbreaking development by granting legal personality to civic nonprofit initiatives. The introduction of the SNC system significantly expanded the legal infrastructure for civil society in Japan.

Subsequently, in 2008, the government implemented a sweeping reform of the public interest corporation system, replacing the old Article 34 corporations under the Civil Code. The previous system of ministerial authorization was abolished, and two new legal forms were introduced: General Incorporated Associations and Foundations, and Public Interest Incorporated Associations and Foundations. General Incorporated Associations and Foundations could be established through simple registration, offering a flexible legal framework for nonprofit activities. Meanwhile, Public Interest Corporations were required to obtain official authorization from the Public Interest Corporation Commission, an independent body located within the Cabinet Office or prefectural governments. Once authorized, these entities became eligible for preferential tax treatment. This reform enhanced the transparency and flexibility of the public interest corporation system and significantly broadened the range of legal structures available for civic use.

In addition to these reforms, sector-specific legal systems for special-purpose nonprofit corporations were also revised in response to contemporary demands. In 2000, the Social Welfare Services Act was comprehensively revised and renamed the Social Welfare Act. This reform shifted the provision of welfare services from a government-based placement model to a user-contract model between service providers and users (MHLW, 2017). In 2006, the system of social medical corporations was introduced to institutionalize medical corporations that fulfill essential public functions such as emergency and disaster response. In 2007, the Offenders Rehabilitation Services Act was replaced by the current Offenders Rehabili-



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tation Act, leading to the reorganization and systematization of Rehabilitation Corporations. These reforms demonstrated a shift even among traditional special-purpose corporations toward governance enhancement and clearer institutional purposes, reflecting an effort to respond to the increasingly diverse needs of society.

Further institutional development occurred alongside the growing culture of charitable giving among citizens. In 2001, an approval system was established for Specified Nonprofit Corporations: SNCs that met certain charitable criteria. These corporations could be designated as Approved SNCs by their competent authorities. Donations to such approved SNCs became eligible for tax incentives, including income deductions or tax credits for donors. In response to increased public interest in charitable donations following the 2011 Great East Japan Earthquake, a 2012 legal amendment relaxed the certification requirements. As a result, the number of Approved SNCs has steadily grown, reaching 1,290 entities by 2025.

In recent years, Japan has implemented major reforms to its public interest corporation system, with the latest amendment taking effect in April 2025. The reform is designed to increase operational flexibility, reduce administrative burdens, and strengthen governance and transparency for public interest corporations.

Key features of the 2025 amendment include:

A. INTRODUCTION OF THE “MEDIUM-TERM FINANCIAL EQUILIBRIUM” PRINCIPLE

- The former annual break-even rule (“shushi-so-sho”) has been replaced with a five-year, medium-term approach in which public interest corporations may now offset current surpluses against past deficits and are allowed up to five years to achieve overall balance.

B. CREATION OF “CHARITABLE ENHANCEMENT FUNDS” AND RESERVE FLEXIBILITY

- Existing project-specific reserves and asset acquisition reserves are integrated into a single fund, enabling flexible allocation across multiple projects.

2025 amendments to Japan’s public interest corporation system



“Medium-term financial equilibrium” principle

Public interest corporations may now offset current surpluses against past deficits and are allowed up to five years to achieve balance.

“Charitable enhancement funds” and reserve flexibility

Existing project-specific reserves and asset acquisition reserves are integrated into a single fund. Contingency reserves are also now permitted.

Simplification of administrative procedures

Application and reporting documents have been streamlined. Some changes to charitable activities and revenue-generating activities now require “notification” instead of “reauthorization.”

Strengthened governance and transparency

New requirements for outside directors, external auditors, and disclosures.

Burden reduction for smaller corporations

Smaller entities benefit from simplified accounting requirements and reduced documentation.

- Corporations may also hold contingency reserves (“charitable project continuity reserves”) to prepare for unforeseen events such as natural disasters or pandemics.

C. SIMPLIFICATION OF ADMINISTRATIVE PROCEDURES

- Minor changes to authorized charitable activities, as well as the creation, discontinuation, or modification of revenue-generating activities, now require only a notification instead of full re-authorization.
- Application and reporting documents have been streamlined, with clearer guidance to enhance predictability and reduce administrative burden.

D. STRENGTHENED GOVERNANCE AND TRANSPARENCY

- Corporations with annual revenue or expenditures exceeding ¥30 million must appoint at least one outside director to enhance checks and balances, and all corporations, regardless of size, are required to appoint at least one external auditor.
- Expanded disclosure requirements now include high-value executive compensation (over ¥20 million annually), overseas remittances, and measures for risk management.

E. BURDEN REDUCTION FOR SMALLER CORPORATIONS

- Smaller entities benefit from simplified accounting note requirements and reduced documentation to ease compliance while maintaining essential transparency.

Overall, the 2025 reform shifts the system toward a more flexible, self-regulated, and transparent framework, encouraging public interest corporations to make proactive and efficient use of their resources while maintaining strong accountability to society.

At the same time, a major reform of the charitable trust system is underway. In May 2024, the new Act on Charitable Trusts was enacted, and the revised system is scheduled to take full effect in April 2026 (Cabinet Office, 2025a). Under this new law, the scope of eligible trustees—previously limited to trust banks and similar institutions—will be expanded. Public interest corporations, specified nonprofit corporations, business corporations, and even individuals may serve as trustees if certain conditions are met. Moreover, the types of assets that can be designated as trust property will no longer be limited to cash. Instead, a broader range of assets—including real estate, securities, artworks, and copyrights—may be entrusted, thereby enabling the system to support non-monetary charitable activities such as facility operation and service provision.

The reform also aims to improve consistency with the public interest corporation system by introducing unified authorization and supervisory mechanisms, mandatory

reporting, and external audits—thus enhancing governance and transparency. The amendment to the Charitable Trust Act is expected to lead to more consistent nationwide implementation, improved legal predictability, and revitalization of charitable activities through more flexible management by legal-entity trustees, thereby expanding the scope and usability of a previously underutilized system.

In addition, even long-established legal entities such as religious corporations, educational corporations, and social welfare corporations have recently been subject to strengthened regulations and reforms in response to evolving social conditions. For instance, in 2022, the Act on the Prevention of Improper Solicitation of Donations (commonly referred to as the Donation Solicitation Regulation Act) was enacted as a countermeasure against coercive donation practices by so-called cult religious organizations, and came into force in 2023. Under this legislation, all entities—including religious corporations—are legally required to respect the voluntary will of believers and donors when soliciting donations, and are prohibited from using coercive means or inciting anxiety during solicitations (Agency for Cultural Affairs, 2024). Coercion to make large donations or psychologically manipulative solicitation practices are now subject to criminal penalties. As a result, donation solicitation activities by religious corporations are now regulated to a certain extent from the perspective of protecting followers.

Similarly, educational corporations and social welfare corporations have undergone reforms aimed at enhancing governance, particularly since the 2000s, through amendments to the Private School Act and the Social Welfare Act. For educational corporations, the April 2005 amendment to the Private School Act introduced important measures to improve organizational transparency and accountability. These included the prohibition on dual service as both director and councilor, the enhancement of council authority, the inclusion of external experts in governance structures, and expanded requirements for appointing accounting auditors. Further reforms were enacted through the 2023 amendment, effective from April 2025, introducing clearer procedures for amending articles of endowment and mandating the establishment of internal control systems (MEXT, 2025).

With respect to social welfare corporations, the amended Social Welfare Act, which took effect in 2018, introduced several governance reforms such as making the establishment of a council mandatory, clarifying the authority of the board of directors, and promoting the inclusion of outside directors. These measures aim to prevent misconduct and enhance the transparency of corporate operations.

As described above, since the 1990s, institutional reforms have not only expanded the range of nonprofit corporate forms available to citizens—including traditional entities with prewar origins—but have also promoted improved governance and transparency within each system. This evolution represents a distinctive feature of Japan's legal framework for charitable and nonprofit organizations.

1.1 Tax Incentives and Treaties to Avoid Double Taxation

Japan’s tax system for nonprofit organizations is complex and varies significantly depending on the legal structure of the organization, the nature of its activities, and whether it has received approval or certification from the competent authority or the National Tax Agency. Unlike countries where all nonprofit entities automatically enjoy tax benefits, Japan’s approach is highly conditional and institutionalized.

Specifically, preferential tax treatment is granted only to organizations that demonstrate a clear public interest and comply with strict governance and transparency standards. Even among nonprofit corporations, only those that obtain special status—such as “Public Interest Corporations,” “Approved Specified Nonprofit Corporations,” or “Social Medical Corporations”—are eligible for income tax deductions or tax credits on donations received.

Japan has entered into numerous tax treaties and Tax Information Exchange Agreements (TIEAs) with more than 80 countries and regions to avoid double taxation and promote the exchange of tax information.⁴ The revised Japan–U.S. Tax Treaty, amended in 2013 and fully implemented in 2019, contains special provisions to support charitable and nonprofit organizations. Notably, charitable and nonprofit entities such as certain authorized public interest corporations and qualified pension funds under either Japanese or U.S. law may benefit from exemptions or reduced rates (0–10%) on withholding taxes applied to cross-border dividends, interest, and royalties.⁵

The treaty also incorporates a mechanism for reciprocal treatment of charitable contributions. Subject to specific requirements under U.S. tax law and IRS recognition, U.S. taxpayers may claim deductions for contributions made to eligible Japanese public interest corporations, approved specified nonprofit corporations, etc. This provision reflects the mutual commitment of both countries to promote international philanthropy.⁶

Together, these treaty arrangements help ensure fair and consistent tax treatment for international donations and investments, while facilitating cross-border nonprofit activity. For more on tax treatment by nonprofit form, please see Annex 2 (page 64).

⁴ Ministry of Finance Japan, “Information on Tax Treaties and Related Matters,” as of June 2025. https://www.mof.go.jp/tax_policy/summary/international/

⁵ Articles 11–13 of the Convention Between the Government of Japan and the Government of the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income. https://www.mof.go.jp/tax_policy/summary/international/tax_convention/USA_ST_jp.pdf

⁶ Article 22 of the Convention Between the Government of Japan and the Government of the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income. https://www.mof.go.jp/tax_policy/summary/international/tax_convention/USA_ST_jp.pdf

2. Challenges under the Current Framework and General Recommendations for Reform

Japan's system of public interest and nonprofit corporations plays a vital role in supporting the activities of a wide range of organizations. However, as mentioned above, it also faces challenges such as insufficient tax incentives, fragmentation between legal frameworks, and onerous operational barriers. This section explores possible directions for institutional reform to build a more sustainable civil society, including four key considerations:

- Ensuring the integrated and flexible redesign of the system
- Support for transitions and collaboration between legal entities
- Enhancement of tax and financial support measures
- Regulation and institutional design for small nonprofit organizations

2.1 Ensuring the Integrated and Flexible Redesign of the System

2.1.1 Challenges under the Current System

Japan's nonprofit legal framework is highly fragmented, with multiple types of legal entities coexisting due to historical developments. These include Public Interest Incorporated Associations and Foundations, General Incorporated Associations and Foundations, Specified Nonprofit Corporations (SNCs), medical corporations, private school corporations, social welfare corporations, religious corporations, public interest trusts, and rehabilitation aid corporations. Each entity type is governed by a different authority, with distinct establishment requirements and criteria for public interest certification, resulting in a lack of overall coherence.

As a consequence, organizations eligible for donation tax benefits—recognized as having “public interest”—are spread across several legal categories, and the application procedures are complex. For instance, under the current system, only Public Interest Incorporated Associations and Foundations or other nonprofit corporations meeting certain stringent conditions qualify to receive tax-eligible donations, making entry into the field particularly difficult for new organizations.

Due to the complexity of the system and its procedures, the creation of new nonprofit entities remains limited. In fact, as of 2024, only about 40,000 organizations in Japan were eligible to receive tax-deductible donations, whereas the United States has over 1.5 million certified 501(c)(3) organizations (Shiraishi, 2024). This stark difference illustrates

how Japan’s legal and regulatory structure poses a bottleneck to expanding civil society actors.

The operational and recognition requirements are extremely strict, making it especially difficult for small-scale organizations to obtain public interest status. If a General Incorporated Association or Foundation operates without receiving public interest certification, even if its activities are entirely for the public good, it cannot benefit from any tax incentives. Thus, the legal framework imposes segmented advantages and constraints depending on the type of corporation, limiting flexibility. Moreover, since legal status has a substantial impact on administrative and tax treatment, it is difficult for organizations to transition to a more appropriate structure in response to their growth or changes in activities.

2.1.2 Policy Guidance

To address these challenges, the nonprofit sector and policy-makers should aim to establish a nonprofit legal framework that enables organizations to be founded and operated under common rules, regardless of their legal form. Systems such as the United States’ 501(c)(3) regime and the charity systems in the United Kingdom and Canada offer useful models, where a single authority is responsible for the recognition and supervision of public interest status, and where donation-related tax benefits and tax exemptions are linked to that recognition.

In Japan, it may be worth considering the development of a more unified system that covers all types of nonprofit entities—including medical corporations, educational corporations, and religious corporations—simplifying incorporation procedures through a notification-based approach, while leaving the determination of public interest status to a separate certification process. This would eliminate disparities in tax treatment based on legal form and allow donors to support organizations without concern for their legal structure.

Further, unifying the system and simplifying requirements would make it easier for organizations to transition between legal forms in response to growth or changes in their activities, thereby expanding the base of actors engaged in public benefit activities.



Due to the complexity of the system and its procedures, the creation of new nonprofit entities remains limited. As of 2024, only about 40,000 organizations in Japan were eligible to receive tax-deductible donations.

2.2 Support for Transitions and Collaboration Between Legal Entities

2.2.1 Challenges Under the Current System

As a result of Japan's fragmented and complex nonprofit legal framework, it is difficult for organizations to change their legal form in response to growth or changes in their activities. For example, a voluntary group that incorporates as a SNC and later seeks to become a public interest incorporated foundation must dissolve and reestablish itself as a new entity, making it hard to maintain organizational continuity and credibility.

Collaboration or integration between different types of nonprofit corporations is also hampered by institutional and regulatory barriers. Differences in oversight authorities, accounting standards, and asset management rules often complicate joint operations. For instance, when a medical corporation and a social welfare corporation seek to collaborate in elderly care, institutional differences make integration difficult. Furthermore, in partnerships with for-profit enterprises or government agencies, nonprofit entities may lack clearly defined roles, making equal collaboration challenging.

2.2.2 Policy Guidance

To address these challenges, policymakers should enact reforms to (1) enable flexible transitions between legal forms and (2) promote collaboration across different types of nonprofit entities. One possible solution is to introduce a system similar to the U.K.'s Charitable Incorporated Organisation (CIO), which allows nonprofits to change legal status without dissolution. This process should ensure public benefit and protect stakeholder interests while being more streamlined than current procedures.

In addition, legal frameworks should allow for joint projects and consortiums across different legal entities. Tax and procedural rules should be revised to ease mergers, business succession, and financial transfers among nonprofit corporations. Measures such as tax exemptions for inter-organizational transfers and simplified administrative steps are essential.

Moreover, the development of a shared database on public-interest activities⁷ with matching functions, and the establishment of platforms for cross-sector collaboration between nonprofits, government, and business, would further enable cooperation. These reforms would allow greater flexibility in organizational development and enhance the nonprofit sector's capacity to address complex social challenges.

⁷ "Public interest activities" refers to projects that serve the general public across 23 categories defined in the annex of the Public Interest Certification Act, including academic research, education, welfare, healthcare, environment, and international cooperation.

2.3 Enhancement of Tax and Financial Support Measures

2.3.1 Challenges Under the Current System

Tax and financial support for the nonprofit sector in Japan remains limited and complex compared to Western countries. Only about 40,000 organizations are eligible for tax incentives, whereas the U.S. and the U.K. have approximately 1.5 million and 170,000 eligible entities, respectively (Shiraishi, 2024). To claim a tax credit, donors must meet the Public Support Test (PST) and obtain certification, with deductions also capped at 40% of total income—factors that make it difficult to encourage large-scale donations. As a result, Japan’s donation-to-GDP ratio remains significantly lower than that of Western countries.

Furthermore, donors have limited access to reliable evaluation information, and support infrastructure such as philanthropic advisors for high-net-worth individuals is underdeveloped. Outside the tax system, government subsidies and commissioned projects are disproportionately allocated to social welfare corporations, leaving grassroots NPOs under-supported. Small organizations, in particular, lack fundraising capacity and struggle to invest in impact evaluation or organizational development.

The “Hometown Tax” (Furusato Nozei) program, created in 2007 to allow taxpayers living in urban areas to contribute to rural areas in return for a tax credit, has grown significantly and surpassed 1 trillion yen in 2023. However, there is concern that donation behaviors driven by return gifts are undermining genuine charitable giving. In addition, nonprofit corporations face unclear criteria for taxation on “revenue-generating businesses” (34 designated business types), and consumption tax adjustments—especially regarding grants—remain burdensome. Overall, the system needs a fundamental review.

2.3.2 Donor-Advised Funds and the Need for a New Giving Infrastructure

Donor-Advised Funds (DAFs) have rapidly expanded in the United States and several other countries as a key mechanism for philanthropic giving. Under this system, donors make contributions to an intermediary fund—receiving an immediate tax deduction—while retaining advisory privileges over future grant-making. Due to their low administrative costs and lower barriers to entry compared to traditional foundations, DAFs have become an important infrastructure for individual giving.

Japan, however, currently lacks a clear legal framework equivalent to DAFs. Only a limited number of financial institutions and nonprofit intermediaries offer services that are functionally similar. As a result, transparency, governance mechanisms, and tax treatment remain insufficiently defined, making such mechanisms difficult for both donors and recipient organizations to utilize effectively.

Looking ahead, developing a legal framework for DAF-like mechanisms—potentially in conjunction with reforms to the charitable trust system—could allow individuals and corporations to engage in more flexible forms of giving. Such reforms have the potential to significantly expand Japan’s philanthropic landscape and strengthen its overall giving infrastructure.

2.3.3 Policy Guidance

Japan should pursue a simpler and more inclusive tax and support system for the non-profit sector. This should include:

- **Expanding eligibility for donation tax benefits:** It may be worth considering expanding eligibility for donation-related tax incentives beyond public interest corporations and certified NPOs to other nonprofit entities that meet basic governance and disclosure standards, with eligibility determined by public benefit and activities rather than legal form.
- **Relaxing deduction limits:** Policymakers could consider raising the current deduction cap of 40% of income for donors who make large or recurring donations. In addition, policymakers could review corporate donation deduction limits, drawing on practices in Western countries.
- **Enhancing transparency and access to trustworthy information:** While the government is developing a public disclosure website for regularly submitted documents of public interest corporations, the information disclosed is primarily intended for supervisory purposes and is often difficult for the public to understand, particularly financial statements. Going forward, policymakers could promote the disclosure of nonprofit financial and program information in more user-friendly formats, including public platforms that allow easy comparison and standardized, dashboard-style presentations that are accessible to donors and the general public, as long as privacy rights—particularly with respect to sensitive or protected organizational information—are respected.
- **Introducing flexibility through proportionality:** Public interest corporations and certified nonprofit organizations eligible for donation-related tax incentives are subject to strict regulatory requirements and extensive administrative procedures, which can be particularly burdensome for small organizations. As a result, many organizations engaged in public benefit activities remain as general nonprofit entities that are not eligible for donation tax incentives. Going forward, policymakers could consider introducing a proportionality principle, allowing donation-related tax benefits to be applied more flexibly to organizations engaged in public benefit activities, taking into account their size and risk profile.

Basic support for small and medium-sized NPOs should be strengthened, and disparities in subsidy and contracting practices corrected. Simultaneously, measures must be taken to mitigate the distortion of donation behavior caused by the gift-based incentives of the Hometown Tax system, while promoting more authentic charitable giving.

Finally, clarification of the taxable scope of revenue-generating activities and simplification of consumption tax procedures would reduce the administrative and financial burden on nonprofit organizations.

2.4 Regulation and Institutional Design for Small Nonprofit Organizations

2.4.1 Challenges Under the Current System

Japan's public interest and nonprofit legal framework lacks sufficient accommodation for small organizations, imposing highly stringent requirements to obtain tax benefits. For example, to be certified as a Public Interest Incorporated Association or Foundation, organizations must engage in continuous public-benefit activities, comply with strict financial and asset management standards, and meet extensive disclosure obligations. In addition, they face significant administrative burdens, such as filing annual reports with the relevant supervisory authority, submitting applications for approval of changes, and undergoing on-site inspections. As a result, even certified organizations often struggle under the weight of compliance requirements, making it difficult to focus on their core public-interest missions—a counterproductive outcome.

These systemic challenges are also evident across other legal entity types. Although more than 90,000 general incorporated associations and foundations exist, many avoid transitioning to public interest status because of the burdensome approval process, even when they are engaged in activities of significant public benefit. Similarly, while the public interest corporation system has improved transparency and accountability since the 2008 reform, the strict criteria have limited the number of recognized organizations to fewer



Although more than 90,000 general incorporated associations and foundations exist, many avoid transitioning to public interest status because of the burdensome approval process, even when they are engaged in activities of significant public benefit.

than 10,000. For Specified Nonprofit Corporations, approval rates remain extremely low due to demanding requirements such as the Public Support Test, leaving many grassroots organizations without access to tax incentives. As a result, organizations that play valuable public roles often forgo recognition and remain disadvantaged in fundraising.

In contrast, the United States and the United Kingdom offer simplified systems for small nonprofit entities in terms of establishment, operation, and reporting obligations.

- In the United States, 501(c)(3) organizations with annual revenue of \$50,000 or less need only submit a brief online form known as the Form 990-N (e-Postcard) once per year, rather than detailed financial reports.
- In the United Kingdom, charity organizations with annual income under £25,000 are not required to submit annual reports, and those under £250,000 may submit simplified documentation. In some cases, even registration requirements are waived.

Both countries apply the principle of proportionality, tailoring regulatory requirements to organizational size and embedding support mechanisms based on the stage of growth. In contrast, Japan applies uniformly strict standards regardless of scale, lacking the institutional flexibility necessary to support small nonprofit organizations effectively. This disadvantages grassroots, rural, and community-based organizations in particular.

2.4.2 Policy Guidance

Future reforms must be grounded in a graduated and proportional regulatory framework that does not place excessive burdens on small nonprofit organizations. In addition, reforms should directly address the barriers identified above—namely, the limited accessibility of public interest certification, the high compliance burden, and the weakness of donation tax incentives for small-scale organizations. The following measures are particularly important:

- **Establishment of a simplified certification system for small organizations:** Introduce a streamlined public interest certification process based on annual income and asset size, allowing eligible organizations to receive tax benefits with minimal reporting requirements.
- **Simplification of periodic reporting and documentation:** Consider adopting mechanisms similar to the U.S. “e-Postcard” (Form 990-N), and exempt small organizations with limited annual revenue and expenditures from regular reporting obligations.

- **Proportionate supervision based on risk and size:** Implement a supervisory system that adjusts the level of oversight according to the organization's size and risk profile, thereby reducing the administrative burden on both the government and the organizations.
- **Strengthening support for grassroots organizations:** For Specified Non-profit Corporations, further improvements to the donation tax system and targeted governance support are necessary to sustain and expand grassroots charitable activities nationwide.

These reforms would support the entry and sustainability of small nonprofit organizations without hindering their core public-interest missions. Ultimately, such a system would help foster a more diverse and dynamic civil society.

2.4.3 Fostering a Culture of Giving and Philanthropic Education

Compared to Western countries, Japan's donation rates remain relatively low. Empirical studies suggest that limited awareness of the social value of giving is a contributing factor. Strengthening the culture of giving requires not only institutional reforms but also long-term educational efforts that promote civic participation.

In many countries, philanthropic education is incorporated into school curricula, financial literacy programs, and community-based learning. These programs help children and adults understand how donations support public goods, encourage voluntary action, and cultivate social responsibility. In Japan, however, such educational initiatives remain fragmented and depend largely on the efforts of individual nonprofits or local governments.

Developing a nationwide framework for philanthropic education—integrated into school education, financial literacy initiatives, and corporate training—would deepen public understanding of the role of charitable giving. Creating an environment in which donations are perceived not as exceptional acts but as a routine part of daily life is an essential foundation for expanding Japan's philanthropic ecosystem.

3. Specific Challenges and Reforms According to Nonprofit Organizational Form

3.1 General Incorporated Associations and General Incorporated Foundations

Introduced in 2008 with the Act on General Incorporated Associations and General Incorporated Foundations, general incorporated associations and foundations offer a high degree of freedom in their establishment and operations. These entities can be established simply through registration, and now account for the majority of nonprofit corporations in Japan. However, challenges have arisen under the current legal framework as follows:

Challenges Under the Current Legal Framework

Transition to Public Interest Corporation Status

Although there were over 90,000 general incorporated associations and foundations as of April 2025, transitioning to a public interest corporation remains difficult due to unclear criteria and burdensome procedures.

Public interest certification demands compliance with rigorous financial standards—such as medium-term fiscal balance, the public-benefit activity ratio, and restrictions on non-designated net assets—along with detailed documentation demonstrating the public nature of activities, governance structures, information disclosure practices, and conflict-of-interest management.

Applicants must also prepare extensive accounting materials in accordance with the complex accounting standards unique to public interest corporations. In addition, the application process requires substantial supporting documentation, including analyses of organizational activities and internal control systems, and administrative review is often prolonged. The combination of these regulatory demands and procedural burdens creates a significant practical barrier to obtaining public interest status.

As a result, many organizations engaged in socially beneficial work—particularly small and mid-sized entities—choose to remain as general corporations, foregoing tax benefits and leaving donors ineligible for tax deductions. These structural barriers discourage transitions to public interest status, thereby limiting sector-wide transparency and financial sustainability.

Governance and Public Benefit

While these entities are legally required to operate on a non-distribution basis, ensuring their public-interest orientation is not mandated by law. The distinction between “non-profit-type” and “other-than-nonprofit-type” status under tax law is determined mainly by formal requirements—such as the prohibition of profit distribution and the restriction on residual asset allocation upon dissolution. However, this classification does not necessarily reflect whether an organization’s activities substantively serve the public interest.

As a result, the actual contribution to public benefit varies significantly among entities. The absence of a unified or enforceable public-benefit standard has been regarded as a structural weakness of the general incorporated association and foundation system. In practice, some organizations focus primarily on member-oriented or business-like activities, which can blur the boundary between public-interest and private-benefit operations. This lack of clear legal or regulatory guidance may create confusion among both organizations and donors, potentially undermining public trust in the nonprofit sector.

Legal Improvements

Recent legal reforms have simplified certain administrative procedures, including the introduction of online applications and more flexible financial regulations.⁸ Nevertheless, further efforts are required to facilitate smoother transitions from general to public interest status and to enhance the credibility of general corporations engaged in nonprofit activities. Encouraging best practices in governance and expanding recognition for nonprofit-oriented corporations will be essential to strengthening Japan’s overall nonprofit ecosystem.

⁸ Recent reforms have replaced the rigid “annual income-expenditure parity” requirement with a mid-term balanced budget rule (typically over five years), allowing accumulated deficits to be offset and enabling more strategic fund use. Moreover, the concept of “idle assets” has been revised into “unspecified-purpose assets,” expanding allowable holdings—including reserves for emergencies—which enhances financial flexibility.

Organizational forms covered in this chapter



3.1 General Incorporated Associations & General Incorporated Foundations

3.2 Public Interest Incorporated Associations & Public Interest Incorporated Foundations

3.3 Specified Nonprofit Corporations & Approved Specified Nonprofit Corporations

3.4 Social Welfare Corporations

3.5 Private School Corporations

3.6 Religious Corporations

3.7 Medical Corporations

3.8 Rehabilitation Corporations

3.9 Charitable Trusts

Key Recommendations

1. STREAMLINE TRANSITIONS TO PUBLIC INTEREST STATUS

Simplify and standardize procedures for general corporations seeking public interest certification, including clearer criteria and digitalized application processes. Current requirements—such as the complex calculation of financial standards, detailed documentation on governance and internal controls, and extensive accounting materials mandated under public interest accounting rules—place a substantial burden on applicants. Moreover, Japan’s system lacks a proportionality principle, unlike the U.S. 501(c)(3) and U.K. charity frameworks, where small organizations are allowed to submit reduced documentation. Introducing clearer, more practical standards and scaled requirements would enable organizations already engaged in public-benefit work, particularly smaller entities, to transition smoothly without excessive administrative burden.

2. ESTABLISH A PUBLIC REGISTRY FOR NONPROFIT-TYPE CORPORATIONS

Create a public registry or certification mark for nonprofit-type general corporations to enhance their visibility, credibility, and fundraising potential. Such a system would clarify the roles of ordinary and public interest corporations and build public trust.

3. PROMOTE TRANSPARENCY THROUGH GRADUAL INFORMATION DISCLOSURE

Introduce a tiered disclosure system for nonprofit-oriented general corporations, requiring basic publication of financial and activity reports. Improved transparency would strengthen accountability and foster confidence among donors and stakeholders.

4. EXPAND TAX INCENTIVES TO NONPROFIT-TYPE CORPORATIONS

Extend donation-related tax benefits to nonprofit-type general corporations that meet defined standards of public benefit and transparency. This reform would advance Japan’s goal of fostering a culture of giving and mobilize private resources for public-good initiatives.

3.2 Public Interest Incorporated Associations and Public Interest Incorporated Foundations

Since the 2008 reform, Japan’s public interest corporation system has played an important role in improving transparency and public confidence. Established under the Act on Authorization of Public Interest Incorporated Associations and Public Interest Incorporated Foundations, these are General Incorporated Associations or Foundations that are certified by the Public Interest Commission under the Cabinet Office or prefectural governments. They are eligible for tax benefits and donation deductions. However, the process of obtaining and maintaining public interest status remains highly demand-

ing, resulting in a relatively small number of recognized corporations—approximately 9,700 as of FY2023 (Shiraishi, 2025).

Challenges Under the Current Legal Framework

Stringent Financial and Governance Requirements

The financial requirements imposed on public interest corporations—such as the “medium-term balance of income and expenditures” rule⁹ and “unspecified-purpose asset regulation”¹⁰—risk weakening the financial foundation of small and medium-sized organizations, thereby limiting their ability to grow, expand their activities, and maintain sufficient reserves for emergencies. These standards are therefore often viewed as excessively strict and disproportionate to the actual circumstances of many organizations.

In addition, maintaining a robust governance framework¹¹ and complying with complex accounting rules—such as the mandatory separation of balance sheet accounts¹²—pose significant burdens for organizations seeking public interest certification. As a result, even entities engaged in socially beneficial activities frequently forgo applying for public interest status, creating structural barriers within the system.

Governance Burdens and Fundraising Challenges

The legal requirement to appoint external board members has strengthened accountability but has also imposed additional burdens on smaller organizations, particularly in recruiting qualified candidates and managing internal adjustments. On the fundraising side, while tax incentives for donations exist, the development of a donation culture remains insufficient. According to the Japan Association of Charitable Organizations (JACO, 2024), more than half of all public interest corporations report no donation income, highlighting the limited effectiveness of current incentives.

Need for Systemic Simplification and Institutional Support

To enhance accessibility and sustainability, it is essential to develop simplified recognition criteria and reporting frameworks tailored to smaller organizations. Streamlining the ap-

9 Medium-term Balance of Income and Expenditures: Public interest corporations are required to maintain a balanced budget over a medium-term period (typically three to five years), allowing limited carryover of surpluses and deficits. Organizational burden: Because they must ensure financial balance across multiple fiscal years, organizations are required to develop long-term financial plans, which imposes a heavy burden on those with fluctuating income.

10 Regulation on Unspecified-purpose Assets: The “unspecified-purpose assets” rule restricts the proportion of assets that can be held without designated public-benefit purposes, limiting the amount of freely managed funds. Organizational burden: Asset classification and management become complex, and flexibility in holding reserve funds for emergencies or future projects is reduced.

11 Strong Governance Framework (External Directors and Auditors): Public interest corporations are required to appoint external directors and auditors, ensuring separation of management and oversight, and to establish policies for conflict-of-interest management and other governance procedures. Organizational burden: Recruiting qualified external directors and auditors, maintaining board operations, and managing governance procedures involve additional personnel and financial costs, which can be especially burdensome for smaller organizations.

12 Segregated Accounting in Balance Sheets: Public interest corporations must segregate assets and liabilities on balance sheets into categories such as restricted and unrestricted assets, thereby enhancing financial statement transparency. Organizational burden: Accounting processes become more complex, requiring specialized expertise and upgraded accounting systems, which increase administrative and audit costs.

proval process, improving government support mechanisms, and strengthening the quality and accessibility of information disclosure—both by public interest corporations and supervisory authorities—are crucial steps toward increasing the overall effectiveness and credibility of the system.

Key Recommendations

1. REFORM FINANCIAL RULES FOR SUSTAINABLE NONPROFIT MANAGEMENT

The medium-term balance of income and expenditures principle should be abolished, as it hinders stable and sustainable nonprofit operations. Donations and their investment income should not be treated as ordinary income, and the unspecified-purpose assets regulation should be relaxed to allow more flexible financial management.

2. SIMPLIFY CERTIFICATION, AMENDMENT, AND REPORTING PROCEDURES

The procedures for public interest certification, amendments, and periodic reporting remain overly complex and difficult to navigate. To allow public interest corporations to focus on their core missions, administrative processes should be streamlined and redundant documentation requirements removed.

Under the current system, organizations are often required to resubmit documents—such as business plans and budget statements—during amendment applications or annual reporting, even though the same materials were already provided at the time of initial certification. In addition, detailed explanations must be submitted for routine matters such as changes in board members or minor amendments to the articles of incorporation, even when these have no impact on the organization’s public-interest activities. These requirements create significant administrative burdens while offering limited regulatory benefit, indicating the need for reform.

Further, the scope and frequency of required submissions should be adjusted according to an organization’s size and capacity so that small corporations are not disproportionately burdened by compliance obligations.



Streamlining the approval process, improving government support mechanisms, and strengthening the quality and accessibility of information disclosure are crucial steps toward increasing the overall effectiveness and credibility of the system.

3. ENHANCE TRANSPARENCY AND INTRODUCE PROPORTIONAL REGULATION

Information disclosure should be improved by publishing application documents and rationalizing disclosed financial data. A proportional regulation system—similar to the U.S. and U.K.—should be introduced to reduce compliance burdens on small organizations while maintaining accountability.

3.3 Specified Nonprofit Corporations and Approved Specified Nonprofit Corporations

The system of Specified Nonprofit Corporations (SNCs) has been instrumental in strengthening Japan’s grassroots civil society by granting legal personality and enhancing organizational credibility. Established under the Act on Promotion of Specified Nonprofit Activities, these entities serve as the backbone of local and thematic nonprofit activities throughout the country. However, the majority of SNCs remain small in scale and face persistent constraints in securing stable funding sources.

Challenges Under the Current Legal Framework

Financial Structure and Fundraising Limitations

Most SNCs rely on membership fees, government subsidies, commissioned projects, and user fees as their primary sources of income. By contrast, Approved Specified Nonprofit Corporations (ASNCs, or Nintei NPOs)¹³ obtain a larger share of their revenue from donations and government-commissioned projects (Cabinet Office, 2024). Although ASNCs benefit from tax incentives that encourage charitable giving, the number of approved organizations remains low—only about 2.6% of all SNCs—as the approval process is complex and demanding.

Approval Procedures and Governance Standards

To qualify as an ASNC, organizations must satisfy the Public Support Test (PST), either by showing that at least 20% of total revenue comes from donations (relative test) or by obtaining donations of ¥3,000 or more from at least 100 individuals annually (absolute test). A third route allows designation by local governments through ordinances, and a provisional certification system provides a temporary three-year tax-deductible status for new SNCs. In addition, ASNCs are required to maintain sound accounting systems, undergo renewal every five years, and uphold high standards of governance. These strict criteria, while ensuring accountability, also create entry barriers for smaller organizations.

¹³ Approved Specified Nonprofit Corporations (ASNCs): An Approved Specified Nonprofit Corporation is a category of NPO that meets certain requirements—such as the Public Support Test (PST)—allowing its donors to receive tax benefits, including tax credits. To qualify, organizations must demonstrate broad public support as well as compliance with standards relating to governance and information disclosure.

Strengthening Governance and Sustainability of the Sector

Enhancing governance within SNCs is essential for maintaining public trust and preventing misconduct. While laws limit excessive executive compensation and family involvement, internal controls are often weaker than in for-profit entities. Strengthening the roles of boards and auditors, improving transparency, and ensuring active public disclosure are crucial steps toward credibility. In recent years, some SNCs have transitioned to general incorporated associations for greater operational flexibility, leading to a modest decline in SNC numbers.¹⁴ Going forward, the nonprofit sector would benefit from further reforms to the donation tax system and targeted capacity-building initiatives to support small-scale organizations and sustain grassroots civic engagement.

Key Recommendations

1. SIMPLIFY AND DIVERSIFY THE CERTIFICATION (APPROVAL) PROCESS

The current approval process for becoming an ASNC is overly complex and imposes high administrative and financial burdens, especially on small organizations. Simplifying the Public Support Test and introducing more flexible standards—such as multi-year evaluation periods or regional criteria—would expand access to tax-deductible status and foster a stronger culture of giving.

PST is typically assessed based only on the figures from the previous fiscal year. Allowing the test to be evaluated using a multi-year average would create a fairer system for organizations whose donation revenue fluctuates, enabling those with stable long-term activities to qualify more consistently. Additionally, because certification is administered by prefectures and designated cities, regional disparities easily arise; clarifying and standardizing the regional criteria would help ensure more consistent decision-making nationwide.

2. ENHANCE FINANCIAL SUSTAINABILITY AND ACCESS TO FUNDING

Most SNCs depend heavily on unstable income sources such as membership fees and project-based subsidies. To ensure financial sustainability, the government should promote long-term support programs, expand matching grant schemes, and provide intermediary platforms that connect SNCs with corporate and individual donors.

¹⁴ According to Annex Table 1, the total number of Specified Nonprofit Corporations (including approved corporations) was 49,676 as of May 2025, compared to 52,494 as of April 2020, representing a decrease of 2,818 organizations (JACO, 2020).

3. INTRODUCE PROPORTIONAL GOVERNANCE AND REPORTING STANDARDS

Governance and reporting obligations should reflect organizational scale and capacity. Introducing a proportional regulation system—as practiced in the U.S. and U.K.—would allow smaller SNCs to comply through simplified governance and financial reporting, while maintaining transparency and accountability.

4. STRENGTHEN CAPACITY BUILDING AND GOVERNANCE SUPPORT

Many SNCs lack human and organizational capacity to meet governance, accounting, and compliance standards. Establishing local support centers and providing continuous training programs in financial management, governance, and social impact evaluation would strengthen accountability and prevent misconduct.

3.4 Social Welfare Corporations

Social Welfare Corporations (SWCs) are legally established nonprofit entities under the Social Welfare Act, primarily responsible for providing essential welfare services such as elder care, support for persons with disabilities, and childcare. Unlike general nonprofit organizations, they are subject to stricter regulations regarding governance, accounting, and public accountability, as they manage facilities and services that are integral to the national social welfare system. As of May 2025, there were 21,237 SWCs operating across Japan, forming the backbone of the country's community-based welfare infrastructure.

Challenges Under the Current Legal Framework

Strengthening Financial Foundations

Amid Japan's declining birthrate and aging population, SWCs are under increasing financial pressure. In response, there has been a growing trend of mergers and business integrations to improve operational efficiency.



As of May 2025, there were 21,237 Social Welfare Corporations operating across Japan. They form the backbone of the country's community-based welfare infrastructure, providing services such as elder care, support for persons with disabilities, and childcare.

Enhancing Governance

In recent years, scandals involving fraudulent accounting practices and the misuse of funds by some executives have damaged public trust in the sector. To address this, the government introduced reforms such as supervisory boards of councilors and enhanced information disclosure requirements. For instance, the 2016 revision of the Social Welfare Act strengthened governance by mandating the establishment of councils (評議員会) and introduced stricter rules on executive compensation, internal control systems, and transparency of financial statements. The government also launched an electronic disclosure system for SWC financial reports, thereby increasing public access to key corporate documents. This dual approach is consistently emphasized by the Ministry of Health, Labor and Welfare and academic researchers (Tatsumi, 2019). However, whether these mechanisms are being effectively implemented at the institutional level remains a subject of ongoing scrutiny.

Meeting Diverse Social Needs

The role of SWCs is expanding beyond traditional services for the elderly, people with disabilities, and childcare services. They are now also expected to address emerging social issues such as child abuse prevention and support for the economically vulnerable. This has created a need for better collaboration with other NPOs, businesses, and local governments.

Key Recommendations

1. STRENGTHEN FINANCIAL RESILIENCE AND DIVERSIFY REVENUE SOURCES

SWCs face growing financial pressure due to demographic decline and rising personnel costs. The government should expand support for organizational restructuring, promote joint management models, and encourage social finance mechanisms such as impact investment and community bonds to diversify revenue sources.

2. PROMOTE COLLABORATION AND INNOVATION IN COMMUNITY-BASED WELFARE

SWCs should play a central role in addressing emerging social challenges—such as poverty alleviation, child abuse prevention, and support for isolated individuals—through collaboration with other nonprofits, local governments, and private enterprises. National and local governments should support cross-sectoral networks and community-based innovation hubs.

3. INTRODUCE PROPORTIONAL REGULATION AND STRENGTHEN CAPACITY BUILDING

Regulatory requirements for governance, accounting, and disclosure should be proportionate to organizational scale and capacity. Smaller SWCs should benefit from sim-

plified reporting obligations, while larger entities should be required to meet higher governance standards.

At the same time, continuous capacity-building programs in leadership, financial management, and compliance should be expanded at the prefectural level.

3.5 Private School Corporations

Private School Corporations play a vital role in supporting Japan's education system. Established under the Private Schools Act, these nonprofit entities operate educational institutions ranging from kindergartens to universities. However, due to Japan's declining birthrate and the resulting decrease in student enrollment, many institutions are facing serious financial difficulties. A growing number of schools have been forced to shut down or transfer operations to other organizations (Morigaku, 2020).

Past incidents of embezzlement and misappropriation of university funds have also highlighted governance weaknesses within some Private School Corporations. In response, reforms have been introduced to strengthen boards of directors, boards of councilors (*hyogi-inkai*), and auditor systems (Nishii & Sakashita, 2021).

Challenges Under the Current Legal Framework

Diversifying Operations and Strengthening Financial Foundations

To address financial strain, many institutions are shifting toward diversified management strategies and seeking to increase donations. Although public subsidies such as private school grants are available, long-term sustainability requires proactive fundraising and clear financial strategies.

Governance Reforms and Organizational Strengthening

A Ministry of Education panel has proposed expanding the powers of boards of councilors to include the authority to appoint and dismiss directors, as well as vote on key decisions. The reforms also promote the inclusion of external board members and independent auditors (MEXT, 2021). Larger institutions are expected to ensure diversity in council composition and avoid overlap between council and board roles (Japan Association of Private Junior Colleges, 2021).

Legal Flexibility and Support for Educational Diversity

The rise of alternative educational models, such as distance-learning high schools and international schools (e.g., those offering the International Baccalaureate), has exposed limitations in the current legal framework. To address this, amendments to the Private Schools Act were passed in April 2023 and came into effect in April 2025 (Hatakeyama & Iwata, 2024). These reforms aim to strengthen governance (e.g., expanding council authority, revising board structures) and introduce institutional flexibility to better accommodate "non-traditional" schools.

Key Recommendations

1. IMPROVE THE GOVERNANCE FRAMEWORK

Japan's governance framework for Private School Corporations is designed to balance public accountability with institutional autonomy, yet challenges remain regarding the division of roles between the board of directors and the board of councilors, as well as overall transparency (Morozumi, 2021). In addition, organizations such as the Japan Association of Private Universities and Colleges have called for legal reforms to prevent excessive concentration of authority in the hands of presidents and boards of directors (MEXT, 2022).

2. ESTABLISH A BALANCED OVERSIGHT FRAMEWORK

Although the Private Schools Act explicitly states that its purpose is to “respect institutional autonomy while enhancing public accountability,” (MEXT, 2022) schools have raised concerns that certain supervisory powers and reporting obligations result in excessive administrative intervention (Morozumi, 2021). In ongoing discussions on amendments to the Act, policymakers and stakeholders continue to emphasize the need to balance transparency with institutional autonomy (MEXT, 2023).

3. INCREASE FINANCIAL TRANSPARENCY AND SUSTAINABILITY

Japan's Private School Corporation system has long recognized challenges related to internal controls and the disclosure of financial information (Japan Association of Private Universities and Colleges, 2020). Recent legislative reforms have strengthened requirements for publishing financial statements and introduced mandatory audits and planning obligations. The repeated calls for greater transparency in governance are also reflected in statements issued by professional and sectoral organizations (Japan Association of Private Universities and Colleges, 2021).

3.6 Religious Corporations

Established by the Religious Corporations Act, Japan's religious corporation system is designed to protect freedom of religion through legal recognition of religious entities. However, concerns have persisted for years regarding accountability and the lack of strong governance frameworks.

Challenges Under the Current Legal Framework

Issues of Financial Transparency

Religious corporations are required to submit financial documents to their supervisory authorities (usually prefectural governments), but these documents are not publicly disclosed. In many cases, even third-party requests to view them are denied, raising social concerns about transparency (Kazama, 2019). Although Article 25 of the Religious Corporations Act mandates that certain financial records be made available to believers or others with legitimate interests, overall disclosure remains limited.

Legal Restrictions on Coercive Solicitation and Donations

Since 2023, the Act on Prevention of Improper Solicitation of Donations by Corporations and Other Entities has prohibited coercive or manipulative solicitation practices by organizations, including religious corporations. The law emphasizes respect for individual free will and prohibits intimidation, fearmongering, and other inappropriate conduct. High-pressure tactics and large donation demands may be deemed illegal under the new law, which is intended to protect followers and ensure fair practices.

Institutional Reforms and Remaining Challenges

While government agencies are encouraging voluntary transparency measures and the introduction of third-party audits, these are not yet mandated under the Religious Corporations Act, which limits enforceability (Kazama, 2019). Furthermore, implementation of the new solicitation law remains incomplete; there is a lack of clarity around enforcement mechanisms and penalties, and victim protection systems are still under development.

In addition, with declining membership and a shortage of successors, the long-term sustainability of many temples and shrines is in question. Balancing the preservation of these religious institutions with broader social and public interests remains a critical issue.

Key Recommendations

1. REFORM TAX EXEMPTION REGIME TO IMPROVE EQUITY AND ACCOUNTABILITY

Japan's Religious Corporations Act grants broad tax exemptions for religious activities, but this has drawn criticism for perceived inequity and lack of accountability. Reforms should clarify the scope of non-taxable activities and strengthen mechanisms to ensure that tax benefits are aligned with genuine religious use of assets and operations. This would help balance constitutional protections for religious freedom with public expectations of fairness (Policy debates on religious tax privileges, 2025).

2. ENHANCE FINANCIAL TRANSPARENCY AND REPORTING STANDARDS

Current accounting and financial reporting requirements are limited and often lack enforcement, leading to a perception of opacity. Strengthening financial transparency—including mandatory audited financial statements, detailed asset disclosures, and public reporting, based on proportional budgetary thresholds—would enhance trust in religious corporations and align them with broader nonprofit transparency norms (JB Press, 2025).

3.7 Medical Corporations

Established under the Medical Care Act, Japan's medical corporation system underpins the delivery of community-based healthcare but continues to face structural challenges.

Challenges Under the Current Legal Framework

Regional Disparities and System Reforms

Rural areas suffer from uneven physician distribution and limited specialty coverage. In response, the Ministry of Health, Labor and Welfare has promoted functional consolidation, mergers, and the streamlining of administrative procedures to enhance system efficiency.

Organizational Flexibility and Governance

Cross-organizational collaborations—such as business transfers and group formations—are increasing. While mergers require gubernatorial approval, entities must also manage issues like hospital bed succession and restructuring costs. Strengthening governance, especially for Specified and Social Medical Corporations, remains essential, as concerns persist regarding transparency and executive oversight.

Nonprofit Status and Structural Transition

Since 2006, new medical corporations must be non-shareholding. To encourage older equity-based entities to transition, the government introduced the Authorized Medical Corporation system, which offers limited tax incentives, such as gift tax exemptions (MHLW, 2024b).

Donation Tax Framework Reform

Despite the vital public services provided by Social Medical Corporations, including emergency and rural care, they do not benefit from donation-related tax incentives. Neither individual income tax deductions nor tax credits are available, and corporate donations fall under the general deduction limit. Calls for reform to extend preferential tax treatment—aligned with their public benefit role—remain unfulfilled but are increasingly viewed as necessary to support their financial sustainability.



Social medical corporations provide vital emergency and rural services but do not benefit from donation-related tax incentives.

In sum, further reform is needed to adapt Japan's medical corporation system to regional healthcare needs, strengthen governance, and establish a fairer tax framework for donations to public-interest medical institutions.

Key Recommendations

1. STRENGTHEN FINANCIAL VIABILITY AND EMERGENCY RESPONSE SUPPORT

Many small and medium-sized medical corporations face severe financial pressures, threatening the sustainability of regional healthcare systems, particularly in rural areas. Targeted financial support mechanisms and emergency funding frameworks should be established to ensure continuity of essential medical services (Japan Medical Corporation Association, 2025).

2. IMPROVE DATA COLLECTION AND TRANSPARENCY OF MEDICAL CORPORATIONS

Currently, there is no comprehensive, standardized framework for collecting and disclosing operational data on medical corporations. Strengthening data collection requirements would support evidence-based policymaking and enhance public accountability (Ministry of Finance, 2023).

3. REFORM GOVERNANCE FRAMEWORKS TO SUPPORT SUSTAINABLE HEALTHCARE DELIVERY

Governance practices among medical corporations vary widely, and clearer standards are needed to support accountability and long-term sustainability. Updating governance frameworks would help medical corporations respond effectively to demographic and healthcare system changes (MHLW, 2012).

3.8 Rehabilitation Corporations

Established under the Relief and Rehabilitation Enterprise Law, rehabilitation corporations assist imprisoned persons to reintegrate into society. These entities face two major challenges: a shortage of personnel and limited operational resources. While the need for support in preventing recidivism and facilitating reintegration into society is increasing, the number of these nonprofit entities remains limited, with an uneven regional distribution. In particular, rural areas often lack sufficient rehabilitation facilities, leaving elderly former inmates with few options for accommodation and support (Inaba, 2023). To promote the establishment of new corporations, financial subsidies and practical guidance are necessary.

In terms of operational resources, these corporations rely heavily on government-commissioned funding. As a result, staff compensation and facility maintenance sometimes fall short of acceptable standards. Securing qualified professionals such as social

workers and counsellors is also difficult, leading to concerns about the consistency and quality of support services. In recent years, the Japanese government has included measures to strengthen support for rehabilitation corporations in its national reoffending prevention strategy, including increases in commissioning budgets and training programs for personnel. However, many in the field continue to call for further support.

Another issue is the lack of public understanding. There remains deep-rooted prejudice and anxiety among residents living near rehabilitation facilities, making community integration a challenge. These corporations must make ongoing efforts to engage with local communities, while government authorities also have a role to play through awareness-raising and outreach.

From a policy perspective, facilitating the merger and consolidation of rehabilitation corporations and promoting collaboration with other stakeholders such as SNCs are also key issues under discussion (Ministry of Justice, 2024). Overall, while rehabilitation corporations play an important public role, they operate within a small and resource-limited sector. Strengthening this field through public-private partnerships will be essential moving forward.

Key Recommendations

1. STRENGTHEN FINANCIAL SUSTAINABILITY AND STABLE PUBLIC FUNDING

Rehabilitation Corporations rely heavily on government subsidies and contracted service fees, which often fluctuate annually and undermine financial stability. Establishing multi-year funding frameworks and revising subsidy formulas would enhance organizational sustainability and service continuity (Ministry of Justice, 2022).

2. ENHANCE GOVERNANCE AND ACCOUNTABILITY FRAMEWORKS

Although Rehabilitation Corporations perform essential public functions, governance standards vary across organizations. Introducing clearer governance guidelines and strengthening internal controls would improve accountability and public trust.

3. EXPAND COMMUNITY-BASED REHABILITATION AND COLLABORATION

Effective rehabilitation requires close collaboration with local governments, NPOs, employers, and communities. Policies should promote community-based rehabilitation models and inter-organizational partnerships to support social reintegration (Ministry of Justice, 2021).

3.9 Charitable Trusts

Charitable trusts are legal arrangements that utilize the trust mechanism to allocate financial or non-financial assets for activities serving the public good. Despite their potential, the system has long suffered from institutional rigidity, resulting in limited use and growth. As of March 2022, there were only 393 charitable trusts nationwide, with total trust assets amounting to approximately JPY57.4 billion—a figure that pales in comparison to the size and scope of incorporated public interest organizations (Trust Companies Association of Japan, 2022).

Several structural factors have contributed to the limited adoption of charitable trusts. Most notably, only trust banks are currently permitted to act as trustees, limiting operational flexibility. Additionally, high administrative costs associated with the creation and management of such trusts, combined with a lack of public familiarity with the system, have further hindered its expansion.

To address these barriers, a major legal reform was enacted in 2024, with the Act on Public Interest Trusts scheduled to come fully into effect in April 2026. Among other changes, the amended law will expand the range of eligible trustees to include not only financial institutions but also Public Interest Corporations, Specified Nonprofit Corporations, and even individuals. While this expansion is expected to enhance flexibility and access, it also raises concerns regarding accountability and risk management, such as the potential misuse of assets or trustee insolvency (Sogo Management Services, 2024).

For the reformed system to function effectively, it is essential to improve public understanding and establish robust support structures. Centralizing oversight under a unified administrative agency may streamline governance, but practical usage will depend on the development of accessible consultation services, particularly at the local level.

Another challenge lies in the legal nature of charitable trusts: they do not possess corporate status. This can undermine their visibility and perceived legitimacy, especially in



Japan's charitable trust system has long suffered from institutional rigidity, resulting in limited use and growth. As of March 2022, there were only 393 charitable trusts nationwide.

fundraising contexts, where accountability and trustworthiness are crucial. Without legal personality, charitable trusts may face difficulties in demonstrating transparency and credibility to potential donors.

Looking ahead, the impact of the reformed legal framework must be carefully monitored after implementation. Depending on its performance, further policy refinements or additional tax incentives may be warranted to enhance the system's appeal and efficacy. If successfully implemented, the new framework could enable more diverse and flexible deployment of both financial and non-financial resources for public benefit purposes. Ultimately, creating an enabling environment—through policy, infrastructure, and education—will be critical to ensuring the successful adoption and long-term viability of charitable trusts.

Key Recommendations

1. SIMPLIFY ESTABLISHMENT AND AUTHORIZATION PROCEDURES

The current establishment and authorization procedures for public interest trusts remain highly complex and impose burdens comparable to those of public interest corporations. To promote wider use of the system, approval procedures should be streamlined through standardized documentation, clearer review criteria, and predictable timelines, focusing on core public-benefit purposes rather than exhaustive ex ante scrutiny.

2. INTRODUCE PROPORTIONAL AND FLEXIBLE REGULATION

Regulatory, accounting, and reporting requirements for public interest trusts should be proportionate to their size, asset scale, and risk profile, rather than uniformly mirroring those applied to public interest corporations. A tiered framework would allow smaller trusts to operate under lighter compliance obligations, while reserving stricter oversight for larger or higher-risk trusts. This proportional approach would lower entry barriers, preserve accountability, and encourage more diverse philanthropic initiatives.

3. REPOSITION PUBLIC INTEREST TRUSTS AS A FLEXIBLE ALTERNATIVE

If public interest trusts are subject to regulatory and procedural requirements nearly identical to those imposed on public interest corporations, their value as an alternative philanthropic vehicle is significantly diminished. The legal framework should clearly position public trusts as a more accessible and flexible option—particularly for individuals and smaller donors—supported by ex post oversight and transparency rather than heavy ex ante controls.

4. Conclusion

Japan's charitable and nonprofit legal framework is characterized by a diversity of legal entities, but it also faces significant challenges such as fragmentation between systems, complex procedures, and disparities in tax treatment. These issues are particularly burdensome for small organizations, many of which forgo public interest certification due to the heavy requirements for approval and ongoing reporting. As a result, the number of certified organizations remains limited.

In contrast, countries like the United States and the United Kingdom have established systems that actively support public benefit activities, with far more certified organizations and a thriving nonprofit sector. In Japan, excessive regulation has hindered the development of public interest activities, and the delay in systemic reform stands out in international comparisons. Going forward, Japan should continue to learn from countries such as the US and U.K. and pursue fundamental reforms to its system, including revisions to tax incentives and supervisory mechanisms. Such changes will only enhance an already dynamic nonprofit sector, strengthening Japan's civil society, charitable, and civic traditions.

Annex 1

Major Legal Entity Types and Their Current Status

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1. Major Legal Entity Types and Their Current Status

Japan's public interest and nonprofit sector is characterized by a diverse range of co-existing legal structures, including Public Interest Corporations, General Incorporated Associations and Foundations, Specified Nonprofit Corporations (SNCs), Social Welfare Corporations, Private School Corporations, Religious Corporations, Medical Corporations, Rehabilitation Corporations, and Charitable Trusts.

This annex outlines the foundational laws and institutional characteristics of these representative legal entity types and provides an overview of their current status, including the number of organizations and patterns of utilization. It further compares and contrasts the institutional differences and commonalities among these legal forms and considers the significance of each system within the broader context of nonprofit and civil society development in Japan.

Table 1. Number of Nonprofit Organizations by Legal Form (as of December 1, 2025)

| Legal Entities | Number | Effective year |
|---|---|---|
| Public Interest Corporations | 9,790 (4,151 associations and 5,639 foundations) | 1896, reformed in 2008 |
| General Nonprofit Corporations | 93,374 (85,487 associations & 7,887 foundations) | 2008 |
| Nonprofit Corporations | 49,485 (48,178 specified & 1,307 approved specified) | 1998 (specified) 2012 (approved specified) |
| Social Welfare Corporations | 21,236 | 1951, reformed in 2000 |
| Private School Corporations | 7,919 | 1947 |
| Religious Corporations (as of Dec. 2024) | 179,339 | 1951 |
| Medical Corporations (as of March 2025) | 60,096 (59,419 general, 307 specified, 373 social) | 1948 (general) 1957 (specified) 2006 (social) |
| Rehabilitation Corporations | 164 | 1950, reformed in 2007 |
| Charitable Trusts* (as of Sep. 2024) | 378 | 1922 |

* Although the Trust Act itself was enacted in 1922, the institutional framework for charitable trusts was formally established in 1967.

Table 2. Comparative Overview of Legal Frameworks for Major Nonprofit Organizations

| Legal Entities | Legal Basis | Establishment Procedure | Competent Authority |
|--|--|--|---|
| Public Interest Corporations | Act on General Incorporated Associations and General Incorporated Foundations | Registration only | No competent authority (No administrative oversight) |
| General Nonprofit Corporations | Act on General Incorporated Associations and General Incorporated Foundations Act on Authorization of Public Interest Incorporated Associations and Foundations | Obtain public interest authorization by Public Interest Corporation Commission in Cabinet Office or Prefectural Government after incorporation | Public Interest Corporation Commission in Cabinet Office or Prefectural Government |
| Specified Nonprofit Corporations | Act on Promotion of Specified Nonprofit Activities | Established after application and certification by Prefectural Government or Designated City Office | Prefectural Government or Designated City Office |
| Approved Specified Nonprofit Corporations | Act on Promotion of Specified Nonprofit Activities | In addition to the above, approval by Prefectural Government or Designated City Office (before 2010, tax office) | Prefectural Government or Designated City Office |
| Social Welfare Corporations | Social Welfare Act | Approval by Prefectural or Municipal Government | Prefectural or Municipal Government |
| Private School Corporations | Private Schools Act | Approval by Ministry of Education, Culture, Sports, Science and Technology (MEXT) or Prefectural Government | Ministry of Education, Culture, Sports, Science and Technology (MEXT) or Prefectural Government |

Table 2 (continued)

| | | | |
|---------------------------------------|---|--|--|
| Religious Corporations | Religious Corporations Act | Approval by Prefectural Government | Prefectural Government |
| Medical Corporations | Medical Care Act | Approval by Prefectural Government | Prefectural Government |
| Specified Medical Corporations | Medical Care Act, Act on Special Measures concerning Taxation, Article 67-2 | Approval by the National Tax Agency* | Prefectural Government |
| Social Medical Corporations | Medical Care Act | Authorized by Prefectural Government* | Prefectural Government |
| Rehabilitation Corporations | Offenders Rehabilitation Services Act | Permission from the Minister of Justice | Ministry of Justice |
| Charitable Trust | Act on Charitable Trusts | Authorized by the Public Interest Corporation Commission in Cabinet Office or Prefectural Government | Public Interest Corporation Commission in Cabinet Office or Prefectural Government |

* A medical corporation must first be established with the approval of the prefectural governor as a regular medical corporation, and then obtain either approval from the National Tax Agency or certification from the competent authority.

1.1 General Incorporated Associations and General Incorporated Foundations

1.1.1 Overview

General incorporated entities (associations and foundations) are legal entities established under the Act on General Incorporated Associations and General Incorporated Foundations, which came into effect in 2008 (Table 2). This system adopts a rules-based (non-discretionary) approach, allowing organizations to be incorporated through registration at the Legal Affairs Bureau without the need for permission from a supervisory government agency. Compared to the former public interest corporation system under Article 34 of the Civil Code, the new system is more flexible and transparent, and was introduced as part of broader administrative reform.

The introduction of this framework has simplified incorporation procedures, enabling small organizations and grassroots groups to more easily acquire legal personality. Even after incorporation, organizations benefit from high flexibility in terms of their objectives and internal governance, making this legal form widely used for diverse social activities. As of December 2025, there are over 93,000 general incorporated entities nationwide, making them a core component of Japan’s nonprofit sector.

For tax purposes, the Corporate Tax Act classifies these entities into “nonprofit-type corporations” or “other-than-nonprofit-type corporations” (National Tax Agency, 2014). In the case of nonprofit-type corporations, only income from revenue-generating activities is subject to taxation.

Importantly, general incorporated entities are not subject to oversight by a specific administrative agency. Unlike public interest corporations, they are not required to submit regular reports or undergo inspections by government authorities. This makes the system particularly favorable for nonprofit organizations, as it minimizes procedural and administrative burdens while allowing a high degree of operational autonomy.

Table 3. Compliance and Profitability Rules Governing General Nonprofit Corporations

| | |
|---|---|
| Scope of Permissible Profit-Making Activities | Nonprofit type of corporations: Permissible if not conducted as the main activity Other than nonprofit type of corporation: No restrictions |
| Distribution of Surplus (Profit Sharing) | Nonprofit type of corporations: No rights to profit distribution Other than nonprofit type of corporation: Profit distribution permitted |
| Disposition of Remaining Assets upon Dissolution | The disposition of remaining assets shall be determined in accordance with the organization's articles of incorporation. If the disposition is not specified, the assets shall revert to the national treasury. |
| Accounting Standards | Accounting must be based on generally accepted accounting principles and other recognized accounting practices. |
| Accounting Principle | Accrual basis |
| Disclosure of Information | Voluntary |

1.1.2 Authorization and Approval Criteria

General incorporated associations and foundations in Japan can be established without obtaining prior approval or authorization from any governmental authority. This simplified, rules-based incorporation process contributes to a flexible legal environment, making it easier for a wide range of organizations to acquire legal personality.

However, to be classified as a “nonprofit-type corporation” and thereby be eligible for preferential tax treatment under the Corporate Tax Act, an organization must satisfy a number of statutory and regulatory conditions. Chief among these is the requirement that the entity’s articles of incorporation clearly prohibit the distribution of surplus and residual assets to members, councilors, or comparable stakeholders. Moreover, the organization must be primarily engaged in activities that serve the public interest—such as education, social welfare, or community development—and not in profit-making endeavors.

Additional conditions include structural and governance requirements. Specifically, no more than one-third of the organization’s directors or auditors may be close relatives or otherwise closely affiliated individuals. Officer remuneration must also be reasonable and not excessive by general societal standards. Furthermore, in the event of dissolution, any residual assets must be designated for transfer to the national or local government, or to another organization with a recognized charitable purpose.

Entities that meet these criteria are treated as nonprofit-type corporations for tax purposes. Under this status, only income derived from designated revenue-generating activities¹⁵ is subject to corporate taxation, while income from non-business or charitable activities remains tax-exempt. This distinction offers a significant operational advantage for organizations dedicated to nonprofit missions.

1.1.3 Organizational Structure Requirements

Compared to for-profit corporations, general incorporated associations and foundations in Japan are subject to fewer statutory requirements regarding their organizational structure. This allows them to design their governance arrangements with a high degree of flexibility, provided that their articles of incorporation stipulate the necessary provisions.

In the case of general incorporated associations, the establishment of a General Assembly of members is typically required as the supreme decision-making body. The appointment of at least one director is mandatory under the law. Furthermore, when an association has three or more directors, it is legally required to establish a Board of Di-

¹⁵ Refers to the 34 types of income-generating activities defined under Article 5 of the Ordinance for Enforcement of the Corporation Tax Act. These activities are generally subject to taxation; however, in the case of public interest corporations, they are tax-exempt when conducted as certified public interest activities.

rectors. While the appointment of an auditor is not compulsory in all cases, it becomes a legal requirement when a Board of Directors is in place. Even when not required, appointing an auditor is strongly encouraged—particularly for associations that intend to be treated as nonprofit-type corporations for tax purposes—as it enhances financial oversight and internal accountability. In order to qualify for nonprofit-type status, an association must also ensure that close relatives or other related parties do not constitute more than one-third of its board members or auditors. In addition, its articles of incorporation must explicitly prohibit the distribution of surplus and residual assets to members, and it must guarantee that officer remuneration remains within a reasonable range by prevailing social standards.

General incorporated foundations differ in that they are established based on an initial endowment of assets, rather than through the membership-based structure found in associations. Under the law, such foundations must establish a Board of Councilors, whose members are tasked with appointing directors. These directors then manage the organization's operations through a Board of Directors. Unlike associations, the appointment of at least one auditor is mandatory for all general incorporated foundations, and the auditor is responsible for monitoring not only the financial statements, but also the directors' performance of their duties. In large-scale foundations—defined as those exceeding certain financial thresholds—the appointment of an independent financial auditor is also required. Importantly, councilors may not serve concurrently as directors or auditors, and the method of their appointment and dismissal must be clearly specified in the foundation's articles.

Despite these structural differences, both general incorporated associations and general incorporated foundations enjoy considerable discretion in organizational design. Their governance structures can be tailored to reflect their specific missions, values, and operational needs. This flexibility is a defining characteristic of Japan's general incorporated entity system and is one of the reasons why it has become widely adopted across the nonprofit sector.

1.2 Public Interest Incorporated Associations and Public Interest Incorporated Foundations

1.2.1 Overview

Public interest corporations—known as *kōeki hōjin*—are nonprofit legal entities formally recognized by either the Cabinet Office or a prefectural government for their public benefit. These organizations initially incorporate as general incorporated associations or foundations under the 2008 Act, after which they apply for and receive authorization under the Act on Authorization of Public Interest Incorporated Associations and Foundations. This authorization is granted following an evaluation conducted by the Public Interest Corporation Commission (*Kōeki Nintei-tō Iinkai*), an independent body estab-

lished within the Cabinet Office or the relevant prefectural government. This two-step process grants the organizations an officially recognized “public interest” status.

Once authorized, these entities typically engage in public interest activities, including education, academic research, cultural preservation, environmental conservation, and regional revitalization. Owing to their non-commercial orientation and substantial public benefit, they qualify for significant tax advantages—most notably, exemption from corporate income taxes on public interest-related operations, as well as favorable tax incentives for donors. These organizations are categorized as “Specified Public Interest Promotion Corporations”¹⁶ in the tax code, enabling them to receive donation-based tax credits and deductions.

The system underwent major reforms in April 2025 aimed at strengthening governance and streamlining operations. One cornerstone of the reform is the Medium-Term Revenue and Expenditure Balance Principle, which replaces the traditional annual budget surplus requirement with a system based on maintaining balanced finances over a multi-year span. Another notable development is the introduction of Public Interest Enhancement Funds, which allow organizations to pool resources across multiple projects for long-term strategic objectives. Additionally, the reform established a Reserve Assets for Continuity of Public Interest Activities mechanism, enabling entities to set aside funds specifically to sustain essential activities during emergencies such as natural disasters or pandemics.

Administrative reforms have also been introduced to simplify authorization procedures and document submission, particularly for minor amendments. The new legal framework enhances procedural clarity and reduces bureaucratic overhead for public interest corporations. Altogether, these changes promote greater operational agility while maintaining robust governance standards.

¹⁶ Specified Public Interest Promotion Corporations” are nonprofit entities designated under Japan’s tax law as eligible for certain tax benefits due to their significant public benefit activities. This category includes Public Interest Corporations, Social Welfare Corporations, among others.

Table 4. Compliance and Profitability Rules Governing Public Interest Corporations

| | |
|---|---|
| Scope of Permissible Profit-Making Activities | Permissible as ancillary activities; each profit-making business must be accounted for separately; profits must be used or disposed of appropriately |
| Distribution of Surplus (Profit Sharing) | No rights to profit distribution |
| Disposition of Remaining Assets upon Dissolution | Remaining assets shall be transferred, in accordance with the organization's governing documents, to another public interest corporation, or to a medical corporation, private school corporation, social welfare corporation, rehabilitation corporation, specified nonprofit corporation, independent administrative agency, national university corporation, local incorporated administrative agency, or to the national or local government. If no eligible transferee is designated, assets shall ultimately revert to the national treasury. |
| Accounting Standards | Accounting standards for public interest corporations |
| Accounting Principle | Accrual basis |
| Disclosure of Information | Mandatory (information is publicly disclosed by the public interest corporation commission) |

1.2.2 Authorization Criteria

An organization seeking designation as a Public Interest Incorporated Association or Foundation must satisfy specific criteria set forth in the Act on Authorization of Public Interest Incorporated Associations and Foundations. At the core of the authorization process is the requirement that the entity's purpose and activities fall within legally designated "public interest" fields—ranging from education and academia to culture, environmental protection, healthcare, and international cooperation—and that its revenues and expenditures be structured in a manner that sustains its public character. The organization must also demonstrate sound financial and technical capacity to carry out its public interest mission.

Transparency and accountability are essential. Authorized entities must prepare and make publicly accessible key documents each fiscal year: business plans, revenue and expenditure budgets, inventories of assets, officer rosters, and remuneration policies. These disclosures are intended to ensure public scrutiny and foster trust.

Governance evaluation is carried out by the Public Interest Corporation Commission, an independent, collegial review body established within the Cabinet Office or each prefectural government. This Commission conducts substantive assessments and is-

sues recommendations to the relevant administrative authority, which then formally grants authorization.

To maintain authorized status, organizations must observe a medium-term balance of income and expenditures, allowing them to plan strategically beyond annual budgeting. They are also required to manage idle assets—those not immediately deployed for public interest work—within statutory limits and use them appropriately. These measures are designed to ensure that investments in long-term and emergency preparedness do not compromise the entity’s public mission.

1.2.3 Organizational Requirements

Public interest corporations are held to rigorous structural and governance standards to ensure transparency and accountability. One significant requirement concerns the appointment of external officers: entities that exceed JPY 30 million in annual revenue, expenditures, or losses are required to appoint at least one external director. Smaller organizations may be exempt from this requirement if all three financial measures remain below the threshold. Importantly, regardless of size, every public interest corporation must appoint at least one external auditor.

Organizationally, these entities must be structured with a minimum of three directors and one auditor. In the case of foundations, at least three council members are additionally required—constitutional elements that underpin sound governance. Both a Board of Directors and, for foundations, a Board of Councilors must be established, and their functioning—such as the frequency of meetings, the issuance of minutes, and the fairness of decision-making processes—is subject to oversight by the authorization authority.

From an accounting standpoint, public interest corporations must generally maintain three distinct accounting records: one for public interest activities, another for revenue-generating activities, and a consolidated account for the organization as a whole. The law mandates clear separation and reporting of financial outcomes by category. In practice, however, if an organization does not conduct revenue-generating business at all, it may qualify for simplified reporting without segmenting its balance sheet.

This comprehensive organizational framework—ranging from governance to accounting—ensures that public interest corporations operate with both integrity and operational clarity, reinforcing public trust in their activities.

1.3 Specified Nonprofit Corporations

1.3.1 Overview

Specified Nonprofit Corporations: SNCs (tokutei hieiri katsudō hōjin) were established by Japan's 1998 Act on Promotion of Specified Nonprofit Activities. This law was designed to provide a legal foundation for citizen-led, nonprofit groups focused on activities benefiting the wider community.

To form an SNC, a group must submit its articles of incorporation, a roster of board members, and a detailed business plan to the local prefecture or designated city office. Upon official certification, the group then completes its registration and gains full corporate status.

The setup requirements are straightforward: the organization must have a minimum of ten full members (or shain), at least three directors, and at least one auditor. Permissible activities are limited to a fixed list of 20 nonprofit fields defined by law. While organizations must not primarily aim to promote religious doctrines or political ideologies, such activities may be permitted as secondary purposes. However, any activity that endorses or opposes specific political candidates, officeholders, or political parties is strictly prohibited.

After becoming an SNC, the organization is required to submit annual reports—covering its revenue-generating activities, financial statements, and board member list—to its supervising authority. These documents must also be open to public inspection, ensuring transparency. By the end of May 2025, Japan had around 48,386 Specified Nonprofit Corporations operating nationwide (see Table 1).

Table 5. Compliance and Profitability Rules Governing Specified Nonprofit Corporations

| | |
|---|---|
| Scope of Permissible Profit-Making Activities | Permissible as long as it does not interfere with specified nonprofit activities |
| Distribution of Surplus (Profit Sharing) | No rights to profit distribution |
| Disposition of Remaining Assets upon Dissolution | Remaining assets shall be transferred, in accordance with the organization's governing documents, to another specified nonprofit corporation, or to a public interest corporation, private school corporation, social welfare corporation, rehabilitation corporation, medical corporation, independent administrative agency, national university corporation, local incorporated administrative agency, or to the national or local government. If no eligible transferee is designated, assets shall ultimately revert to the national treasury. |

Table 5 (continued)

| | |
|----------------------------------|--|
| Accounting Standards | Accounting Standards for Specified Nonprofit Corporations |
| Accounting Principle | Accrual basis |
| Disclosure of Information | Mandatory (information is publicly disclosed by cabinet office and prefectural government) |

Table 6. Compliance and Profitability Rules Governing Approved Specified Nonprofit Corporations

| | |
|---|---|
| Scope of Permissible Profit-Making Activities | Permissible as long as it does not interfere with specified non-profit activities |
| Distribution of Surplus (Profit Sharing) | No rights to profit distribution |
| Disposition of Remaining Assets upon Dissolution | Remaining assets shall be transferred, in accordance with the organization's governing documents, to another specified nonprofit corporation, or to a public interest corporation, private school corporation, social welfare corporation, rehabilitation corporation, medical corporation, independent administrative agency, national university corporation, local incorporated administrative agency, or to the national or local government. If no eligible transferee is designated, assets shall ultimately revert to the national treasury. |
| Accounting Standards | Accounting Standards for Specified Nonprofit Corporations |
| Accounting Principle | Accrual basis |
| Disclosure of Information | Mandatory (information is publicly disclosed by cabinet office and prefectural government) |

1.3.2 Authorization and Approval Criteria

Specified Nonprofit Corporations are generally established through a certification process carried out by the competent authority of the relevant prefecture or designated city. This certification marks the formal beginning of their legal status as nonprofit entities and enables them to engage in specified nonprofit activities across 20 legally defined fields.

In addition to this standard certification, a special tax designation known as “Approved Specified Nonprofit Corporation” was introduced in 2001 to support nonprofit organizations that demonstrate a high level of public trust and operational integrity. Initially, this status was granted by the National Tax Agency under the Special Taxation Measures Law.

However, following the revision of the Act on Promotion of Specified Nonprofit Activities in April 2012, the responsibility for granting approval shifted to prefectural and designated city governments. Alongside this reform, a provisional approval system (*tokurei nintei*) was also introduced to provide a flexible pathway for younger organizations.

To qualify for full approval as an Approved SNC, an organization must meet several criteria. One of the core requirements is passing the Public Support Test (PST), which may be satisfied in one of three ways: (1) the relative value test, where more than one-fifth of the organization's total revenue consists of qualified public donations; (2) the absolute value test, where the organization receives donations of at least JPY 3,000 from 100 or more individuals or organizations annually; or (3) designation through a municipal ordinance. In addition to meeting the PST, the organization must demonstrate sound governance, transparency through proper information disclosure, and compliance with established accounting standards.

For organizations within five years of incorporation, the Provisional Approval system offers an alternative route. While the criteria are somewhat relaxed, this framework allows newer nonprofits to receive tax benefits while they build the operational track record necessary for full approval. The system is designed to encourage the growth of public-serving nonprofits during their formative years.

1.3.3 Organizational Structure Requirements

Specified Nonprofit Corporations must maintain a clear and accountable organizational structure. This begins with the requirement to establish a General Assembly composed of full members (*shain*), which serves as the organization's highest decision-making body. While not mandatory, many organizations also establish a Board of Directors to facilitate day-to-day operations. Directors are generally expected to meet at least once per year, with the possibility of convening extraordinary meetings as specified in the organization's bylaws.

By law, an SNC must appoint at least three directors and at least one auditor. The auditor plays a key oversight role, reviewing both financial management and the board's decisions, and may even convene a General Assembly if problems arise.

The governance framework must reflect a strong commitment to nonprofit principles. This includes limiting executive remuneration, banning improper financial gains, and specifying how any residual assets will be handled upon dissolution. Such measures help ensure that SNCs operate with integrity and true nonprofit intent.

SNCs must also regularly hold General Assemblies and are required to submit annual business reports, financial statements, and updated lists of directors to their local government authority. These documents are made publicly available, ensuring transparency and accountability to the community.

1.4 Social Welfare Corporations

1.4.1 Overview

Social Welfare Corporations are nonprofit entities founded under the 1951 Social Welfare Act. Designed to deliver essential public services—such as elder care, childcare, and support for individuals with disabilities—they are a central component of Japan’s nationwide welfare system. The system was introduced in response to significant social challenges in the post-World War II era, including poverty, war orphans, and a rapidly aging population, aiming to professionalize and standardize welfare delivery across communities.

To form a Social Welfare Corporation, an organization must receive formal approval from the relevant competent authority—typically the governor of the prefecture or the mayor of a designated city—depending on the location of its headquarters and the scope of its services. Once approved, these corporations are subject to continuous oversight. The authority may inspect facilities and records, issue directives for corrective action, and, in cases of serious non-compliance, suspend operations or order dissolution.

By law, these corporations must prioritize nonprofit service delivery. While they are permitted to operate small-scale revenue-generating activities, such initiatives must not impede their primary mission in social welfare. Crucially, any profits earned must be reinvested into core welfare activities and may not be distributed to individuals or shareholders.

Table 7. Compliance and Profitability Rules Governing Social Welfare Corporations

| | |
|---|---|
| Scope of Permissible Profit-Making Activities | Permissible if not conducted as the main activity |
| Distribution of Surplus (Profit Sharing) | No rights to profit distribution |
| Disposition of Remaining Assets upon Dissolution | Remaining assets shall be transferred, in accordance with the organization's governing documents, to another social welfare corporation, or to a public interest corporation, private school corporation, medical corporation, rehabilitation corporation, specified nonprofit corporation, independent administrative agency, national university corporation, local incorporated administrative agency, or to the national or local government. If no eligible transferee is designated, assets shall ultimately revert to the national treasury. |
| Accounting Standards | Accounting Standards for Social Welfare Corporations |
| Accounting Principle | Accrual basis |
| Disclosure of Information | Mandatory (each corporation must disclose the information publicly) |

1.4.2 Authorization and Certification Criteria

To establish a Social Welfare Corporation, applicants must submit a range of documents—including articles of incorporation, detailed business plans, and an inventory of assets—to the designated supervisory authority, typically at the prefectural or municipal level. The authority reviews the submission for legal compliance and, upon approval, grants official status. From that point onward, the corporation remains strictly regulated, submitting annual business and financial reports for ongoing oversight.

In 2017, significant amendments to the Social Welfare Act strengthened governance standards. These reforms enhanced the authority of the Board of Councilors, prohibited dual roles between directors and councilors, limited the proportion of family members serving as directors, and introduced mandatory disclosure of financial information. These enhancements were designed to boost transparency and reinforce the public-oriented mission of Social Welfare Corporations (MHLW, 2017a; Bureau of Social Welfare and Public Health, 2017).

Additionally, Social Welfare Corporations with substantial financial scale—specifically, those with annual revenue exceeding JPY 3 billion or liabilities exceeding JPY 6 billion—are required to appoint a certified public accountant or an audit firm and undergo a formal audit of their financial statements. Recent supervisory guidelines further emphasize the importance of sound governance practices and consistent oversight to maintain public confidence.

1.4.3 Organizational Structure Requirements

The Council must consist of more members than the Board of Directors—typically resulting in at least six directors and seven council members. The Council must consist of more than twice as many members as the Board of Directors—typically resulting in at least six directors and seven council members—and no individual may serve on both bodies simultaneously. The Council also holds the authority to make crucial organizational decisions and to approve changes to bylaws.

All corporations must appoint at least two auditors, a key oversight figure responsible for auditing the directors' actions and reviewing the organization's finances. If the auditor uncovers irregularities, they are obligated to report these findings to the Board of Councilors or the supervisory authority.

Strict rules limit the number of family members serving as directors or councilors: they cannot constitute the majority of either body. This is designed to prevent undue influence and maintain neutral decision-making.

Larger Social Welfare Corporations—those meeting specified financial thresholds—must establish formal internal control systems and undergo independent external audits conducted by certified public accountants or audit firms. These governance expectations help ensure responsible management and protect both the welfare recipients and the public’s trust in the organization.

1.5 Private School Corporations

1.5.1 Overview

Private School Corporations are nonprofit legal entities established under Private Schools Act (enacted in 1949). Their primary mission is to found and operate private educational institutions—including universities, junior colleges, high schools, junior high schools, elementary schools, and kindergartens. According to Article 1 of the Act, the goal is to foster the sound development of private education by valuing institutional autonomy while ensuring a strong commitment to the public interest.

To form a Private School Corporation, applicants must receive approval from the relevant authority: The Minister of Education, Culture, Sports, Science and Technology (MEXT) for universities and technical colleges, or the prefectural governor for other private schools. Following approval, these entities remain subject to ongoing oversight; they are required to submit annual reports, undergo facility inspections, and maintain compliance with educational standards.

By law, Private School Corporations are prohibited from distributing profits to members. While they may operate revenue-generating activities to support educational aims, any surplus must be reinvested into school operations and cannot be distributed as dividends.

Table 8. Compliance and Profitability Rules Governing Private School Corporations

| | |
|---|---|
| Scope of Permissible Profit-Making Activities | Permissible if not conducted as the main activity |
| Distribution of Surplus (Profit Sharing) | No rights to profit distribution |
| Disposition of Remaining Assets upon Dissolution | Remaining assets shall be transferred, in accordance with the organization's governing documents, to another private school corporation, or to a public interest corporation, medical corporation, social welfare corporation, rehabilitation corporation, specified nonprofit corporation, independent administrative agency, national university corporation, local incorporated administrative agency, or to the national or local government. If no eligible transferee is designated, assets shall ultimately revert to the national treasury. |

Table 8 (continued)

| | |
|----------------------------------|--|
| Accounting Standards | Accounting Standards for Private School Corporations |
| Accounting Principle | Accrual basis |
| Disclosure of Information | Mandatory (upon request) |

1.5.2 Approval and Certification Requirements

To establish a Private School Corporation—such as a private university, high school, or elementary school—in Japan, applicants must obtain official approval from the appropriate authority. For universities, this approval comes from MEXT; for other private schools, it comes from the governor of the relevant prefecture. Approval requires a thorough review of the proposed school’s justification, staffing structure, financial stability, and the suitability of its facilities and infrastructure, in accordance with the standards set forth in the Private Schools Act and related regulations (MEXT, 2023).

Once approved, Private School Corporations remain under ongoing supervision. They are required to submit regular business and financial reports and may undergo periodic inspections by MEXT or prefectural authorities. Such oversight ensures that their educational programs, management practices, and facilities continue to meet legal and quality standards (MEXT, 2023; MEXT, 2024).

In 2024 and 2025, revisions to the Private Schools Act introduced significant governance reforms inspired by recent changes to the Public Interest Corporation system. These reforms mandate the separation of executive and oversight roles, prohibit dual appointments of directors and council members, and enhance the powers of the board of councilors. Together, these measures aim to reinforce internal checks and balances and improve transparency within private educational institutions (MEXT, 2025).

1.5.3 Organizational Structure Requirements

Under Japan’s Private Schools Act, Private School Corporations must legally maintain two separate governance bodies: Board of Directors, responsible for day-to-day operations, and the Board of Councilors, which provides oversight and approval authority. The law explicitly prohibits individuals from serving on both boards simultaneously, and requires that the Board of Councilors have more members than the Board of Directors. These stipulations are designed to ensure proper checks and balances within the organization’s governance framework (MEXT, 2023).

The Board of Councilors has the power to appoint and supervise the Chairperson (known as *rijichō*), exercising meaningful oversight over executive leadership. According to recent guidelines from the Ministry of Education, Culture, Sports, Science and Technology (MEXT), it is advisable for the council to include external experts to strengthen its independence and objectivity (MEXT, 2024).

Larger Private School Corporations—such as private universities and sizable schools—are required to undergo independent external audits conducted by certified public accountants or audit firms. These institutions must also implement robust internal control frameworks, including risk management processes and compliance checks, to ensure transparency and integrity in their operations (MEXT, 2025).

These organizational requirements are designed to enhance transparency, reinforce internal accountability, and preserve the quality and public trust in private educational institutions.

1.6 Religious Corporations

1.6.1 Overview

Religious Corporations are nonprofit legal entities formed under the Religious Corporations Act of 1951, which grants legal status to religious groups—including shrines, temples, churches, and denominations—so they can own places of worship and related assets. The law protects freedom of religion as guaranteed by the Japanese Constitution and ensures the separation of religion and state, meaning the government cannot interfere with religious doctrine or rituals.

These entities are responsible for maintaining houses of worship, conducting religious ceremonies, and educating adherents, while managing their assets exclusively for religious purposes. Profit distribution to members is strictly prohibited; all income—such as donations or offerings—must be used solely for religious activities.

The Act also empowers Religious Corporations to register worship buildings and grounds (“house of worship” and “place of worship”) as part of their corporate estate, facilitating proper ownership and use. However, they must operate within constitutional limits, and the government retains the power to suspend commercial activities that violate regulations if carried out improperly.

Table 9. Compliance and Profitability Rules Governing Religious Corporations

| | |
|---|--|
| Scope of Permissible Profit-Making Activities | Permissible if not conducted as the main activity |
| Distribution of Surplus (Profit Sharing) | No rights to profit distribution |
| Disposition of Remaining Assets upon Dissolution | Remaining assets shall be transferred, in accordance with the organization's governing documents, to another Religious Corporation, or to a public interest corporation, private school corporation, social welfare corporation, rehabilitation corporation, medical corporation, specified nonprofit corporation, independent administrative agency, national university corporation, local incorporated administrative agency, or to the national or local government. If no eligible transferee is designated, assets shall ultimately revert to the national treasury. |
| Accounting Standards | Accounting Standards for Religious Corporation (Voluntary) |
| Accounting Principle | Not specified |
| Disclosure of Information | Disclosure upon request (The registry of religious corporations is made public by the authorities. Disclosure of financial information may be waived if the corporation does not conduct for-profit business and its income remains below a certain threshold). |

1.6.2 Authorization and Certification Criteria

Religious Corporations must obtain official approval before gaining legal status. For those whose religious activities are confined to a single prefecture, approval is granted by the prefectural governor. However, if the organization operates across multiple prefectures—for example, maintaining worship sites in more than one region—it falls under the authority of MEXT.

Applicants are required to submit several foundational documents: articles of incorporation (called “rules”), a description of their organizational structure, a list of officers and core followers, an inventory of assets, and maps of worship facilities. This documentation supports the authority’s review of the applicant’s legitimacy, scope, and financial transparency.

In response to the terrorist attack by Aum Shinrikyō in 1995, the Religious Corporations Act was amended in 1996 to strengthen regulatory oversight. The changes empowered authorities to demand operational reports, question leadership, and required enhanced financial disclosures.

Further updates came in 2022 with the implementation of the Act on Prevention of Unjust Solicitation of Donations. This law mandates that religious organizations engage in fundraising ethically and provides legal protections against coercive solicitation tactics.

1.6.3 Organizational Requirements

Religious Corporations must operate under clear governance standards and internal discipline. They are required to adopt internal operational rules—comparable to articles of incorporation—that specify key aspects of their structure and management. Central to this structure is the appointment of directors or responsible officers who manage the organization’s assets, oversee daily activities, and ensure continuity of religious functions.

While the law imposes minimal requirements, guidance from the Agency for Cultural Affairs (2024) encourages voluntary adoption of good governance practices. These include publishing financial statements, implementing external audits, and clearly defining roles and responsibilities among executives to enhance transparency and accountability.

In recent years, religious corporations have come under greater social scrutiny. Authorities now place stronger expectations on religious organizations to act responsibly. The government may intervene with formal action—including requesting a dissolution order from court—if a corporation seriously violates laws or threatens public welfare, as seen in high-profile cases involving major religious groups.

1.7 Medical Corporations

1.7.1 Overview

Medical Corporations (Iryō Hōjin) are nonprofit legal entities established under the Medical Care Act of 1950. They are responsible for founding and managing a wide range of healthcare facilities—including hospitals, clinics, and geriatric health service centers—forming a core part of Japan’s healthcare delivery network.

This legal framework was introduced in the postwar period to bring stability and structure to the fragmented and financially unstable medical services of the time. Medical Corporations are strictly prohibited from distributing profits to members; any surplus must be reinvested in improving healthcare quality, upgrading facilities, and supporting ongoing operations.

To promote public-interest healthcare, a special category known as Social Medical Corporations was introduced in 2006. These organizations, which provide essential community health services, are granted preferential tax treatment in recognition of their dedication to serving the public.

Table 10. Compliance and Profitability Rules Governing Medical Corporations

| | |
|---|--|
| Scope of Permissible Profit-Making Activities | Profit-making activities are not allowed (Social Medical Corporations are permitted to engage in profit-making activities). |
| Distribution of Surplus (Profit Sharing) | No rights to profit distribution (prohibited by law) |
| Disposition of Remaining Assets upon Dissolution | Remaining assets must be transferred, in accordance with the organization's governing documents, to another medical corporation or to a public-interest entity such as a public interest corporation, private school corporation, social welfare corporation, rehabilitation corporation, specified nonprofit corporation, independent administrative agency, national university corporation, local incorporated administrative agency, or to the national or local government. If no eligible transferee is designated, assets shall ultimately revert to the national treasury. |
| Accounting Standards | Accounting Standards for Medical Corporations |
| Accounting Principle | Accrual basis (Note: Small-scale corporations are allowed to use cash-basis accounting) |
| Disclosure of Information | Disclosed by each prefectural government |

1.7.2 Authorization and Certification Standards

The establishment of a Medical Corporation (Iryō Hōjin) requires approval from the prefectural governor. These corporations may be structured with or without equity, and those strongly committed to public-interest healthcare can be further accredited as Specified Medical Corporations (Tokutei Iryō Hōjin) or Social Medical Corporations (Shakai Iryō Hōjin) (MHLW, 2021).

A Specified Medical Corporation, upon approval by the Commissioner of the National Tax Agency, benefits from a reduced corporate tax rate—from approximately 23.2% to 19% on income exceeding JPY 8 million. However, it is not eligible to receive tax-deductible donations, meaning donors receive no tax incentives (MHLW, 2024a).

A Social Medical Corporation, authorized by the prefectural governor, enjoys broader tax advantages, including full or partial exemptions from corporate tax on income from medical services, and possible reductions in property and real estate acquisition taxes. Only income from profit-generating businesses is taxable. Nonetheless, donations to Social Medical Corporations are not currently eligible for income tax deductions or credits. Although calls for such tax benefits have been made, they remain unrealized (MHLW, 2021).

These distinctions highlight Japan's complex regulatory framework for Medical Corporations and the varying incentives based on their public-interest roles.

1.7.3 Organizational Requirements

Under the Medical Care Act, Medical Corporations must maintain a formal governance framework, with organizational requirements varying by type of corporation. A standard (general) Medical Corporation is required to have a Board of Directors with at least three directors and one auditor. In contrast, a Specified Medical Corporation must have at least six directors and two auditors, while a Social Medical Corporation must appoint at least six directors, two auditors, and no fewer than twelve councilors (members of the Board of Councilors).

For foundation-type corporations, the establishment of a Board of Councilors is mandatory, and no individual may serve on both the Board of Directors and the Board of Councilors. Additionally, councilors must outnumber directors. These boards are responsible for overseeing operations, ensuring compliance with relevant laws, and adhering to rules governing meeting frequency and minute-taking.

An auditor must be appointed for all types of Medical Corporations. Auditors may not concurrently serve as directors or employees, and they are required to prepare and submit annual audit reports, attend board meetings, and promptly report any suspected misconduct.

There are also differences in governance and regulatory constraints among the types of Medical Corporations. Specified Medical Corporations are subject to stricter requirements, including a cap on executive compensation (less than JPY 36 million per year per person) and restrictions on the appointment of family members as officers. Social Medical Corporations are also subject to familial relationship restrictions, whereas general Medical Corporations have no such limitations. Furthermore, Social Medical Corporations are permitted to engage in profit-generating businesses, unlike general and Specified Medical Corporations, which are restricted from conducting such activities.

A 2017 revision to the Medical Care Act enabled Social Medical Corporations to issue social medical corporation bonds, a financing mechanism subject to strict issuance limits, external audits, and robust internal control systems. The revision also introduced clarified merger procedures, conflict-of-interest provisions, and strengthened disclosure requirements to enhance transparency and public oversight (MHLW, 2024a).

Together, these differentiated requirements help ensure that Medical Corporations uphold high standards of governance, financial integrity, and public accountability while delivering essential healthcare services to communities.

1.8 Rehabilitation Corporations

1.8.1 Overview

Rehabilitation Corporations trace their legal foundation to the Offender Rehabilitation Services Act, which took effect in 1995. These nonprofit entities operate facilities—commonly called rehabilitation centers—that provide housing, daily living support, job placement services, and social reintegration programs for individuals with criminal or delinquent histories. The goal is to promote rehabilitation and reduce reoffending by supporting successful reentry into society (Ministry of Justice, 2015).

Their origin reflects Japan’s long-standing civil society efforts to assist former inmates, which evolved through postwar legal frameworks such as the Judicial Rehabilitation Commissioners system.¹⁷ The 1995 law institutionalizes these efforts, legally recognizing the role of such organizations in offender rehabilitation and crime prevention (Takahashi, 2013).

Table 11. Compliance and Profitability Rules Governing Rehabilitation Corporations

| | |
|---|---|
| Scope of Permissible Profit-Making Activities | Permissible if not conducted as the main activity |
| Distribution of Surplus (Profit Sharing) | No rights to profit distribution |
| Disposition of Remaining Assets upon Dissolution | Remaining assets shall be transferred, in accordance with the organization’s governing documents, to another charitable trust, or to a public interest corporation, private school corporation, social welfare corporation, rehabilitation corporation, medical corporation, specified nonprofit corporation, independent administrative agency, national university corporation, local incorporated administrative agency, or to the national or local government. If no eligible transferee is designated, assets shall ultimately revert to the national treasury. |
| Accounting Standards | Accounting Standards for Rehabilitation Corporations |
| Accounting Principle | Accrual basis |
| Disclosure of Information | Upon request |

¹⁷ A volunteer system unique to post-war Japan that has developed as part of the country’s community-based rehabilitation efforts. It enables private citizens to assist in the reintegration of individuals with a history of crime or delinquency.

1.8.2 Authorization and Certification Criteria

To establish a Rehabilitation Corporation, organizations must receive formal approval from the Minister of Justice, after which they fall under the ongoing jurisdiction of the Rehabilitation Bureau within the Ministry of Justice. In 2002, systemic enhancements were introduced to improve service quality. With the enactment of the Offender Rehabilitation Act in 2007, these entities also became more closely integrated with broader crime prevention policies.

In 2021, the Ministry updated its Operational Guidelines for Rehabilitation Facilities, promoting tailored support for elderly ex-offenders and individuals with disabilities, while also setting clearer standards for staffing levels and qualifications. These changes ensure that care is appropriate and effective across different beneficiary groups.

Organizations that meet high standards of public service quality may qualify as Specified Public Interest Promotion Corporations. This designation enables them to receive tax-deductible donations and tax credits, aligning with Japan's broader policy of encouraging nonprofits that deliver significant community benefits.

1.8.3 Organizational Requirements

Rehabilitation Corporations are structured to uphold strong governance and financial accountability. By law, they must appoint at least five directors, including a chairperson, and two auditors who are independent from management. While establishing a Council of Trustees is optional, if one is formed, it must have more members than the Board of Directors, and individuals may not serve simultaneously as trustees and directors.

At the time of founding, organizations are required to submit key legal documents—such as the articles of incorporation, lists of officers, and an inventory of assets—to the Ministry of Justice. During operation, they must annually prepare and submit facility operations reports, financial statements, and auditor reports, which are subject to inspection and oversight (Ministry of Justice, 2015).

Auditors play a critical role in ensuring proper governance. They are tasked with examining directors' activities, reviewing the organization's finances, and reporting any misconduct or irregularities to both the Board of Trustees and the Ministry. Established under Article 19 of the Offender Rehabilitation Services Act, auditors cannot hold positions as directors or employees, ensuring their independence.

In recent decades, many families of Rehabilitation Corporations have expanded their services to include community integration supports such as employment assistance and housing aid. This trend not only helps reduce recidivism, but also strengthens the organizations' role as essential providers within community-based welfare systems, warranting enhanced transparency and governance standards (Takahashi, 2013).

1.9 Charitable Trusts

1.9.1 Overview

Charitable trusts—long managed by trust banks under the original Charitable Trust Act (1971)—are being revamped. Despite their public purpose, practical use was limited by narrow trustee eligibility, rigid procedures, and asset restrictions. In response, a new Charitable Trusts Act was enacted in 2024, with full implementation set for April 2026.

Under the new system, not only financial institutions but public interest corporations, Specified Nonprofit Corporations (SNCs), and individuals can serve as trustees. Trust assets are no longer restricted to cash but can include real estate, art, intellectual property, and even facility management tasks. This broader framework enables more flexible and localized use of trust assets.

The reform also eliminates the outdated “competent authority” model. Instead, charitable trusts will be overseen by the same Public Interest Corporation Commission that supervises public interest corporations, introducing a unified evaluation and approval process.

From a governance perspective, charitable trusts must adhere to standards similar to public interest corporations. They are required to prepare and submit business plans, financial statements, and annual reports, and may be required to undergo external audits. These measures promote transparency, accountability, and public trust in the new system.

The recent reform of the charitable trust system is also closely connected to the potential establishment of a Donor-Advised Fund (DAF) framework in Japan. DAFs share certain functional similarities with charitable trusts, particularly in allowing donors to make contributions and subsequently advise on the allocation of grants. Ensuring sound governance and transparent management of trust assets is a prerequisite for introducing such a mechanism, making the development of an appropriate trust-law framework essential.

Positioning DAF-like mechanisms within Japan’s legal system in the future would help diversify the vehicles available for charitable giving and create a stronger foundation for encouraging philanthropic engagement by both individuals and corporations. The current charitable trust reform therefore represents an important step toward enabling such developments.

Table 12. Compliance and Profitability Rules Governing Charitable Trusts

| | |
|---|--|
| Requirements for Establishment | Articles of incorporation must be drafted and certified by at least two members; registration with the Legal Affairs Bureau is required |
| Scope of Permissible Profit-Making Activities | Permissible if not conducted as the main activity |
| Distribution of Surplus (Profit Sharing) | No rights to profit distribution |
| Disposition of Remaining Assets upon Dissolution | Remaining assets shall be transferred, in accordance with the organization's governing documents, to another medical corporation (general or specified), or to a public interest corporation, private school corporation, social welfare corporation, rehabilitation corporation, specified nonprofit corporation, independent administrative agency, national university corporation, local incorporated administrative agency, or to the national or local government. If no eligible transferee is designated, assets shall ultimately revert to the national treasury. |
| Accounting Standards | Accounting Standards for Charitable Trust |
| Accounting Principle | Accrual basis (Note: Small-scale charitable trust are allowed to use cash-basis accounting) |
| Disclosure of Information | Disclosure by each organization |

1.9.2 Authorization and Approval Criteria

Under the previous framework, the oversight of charitable trusts was fragmented, with different government ministries serving as the competent authority depending on the trust's specific purpose. The revised law, however, streamlines this process by assigning both authorization and supervisory responsibilities to the Public Interest Commission—either at the Cabinet Office or the prefectural government level—in line with the structure applied to public interest corporations. This change is intended to create greater coherence and transparency in regulatory oversight.

At the same time, the new system introduces more rigorous governance and reporting obligations. These include clearer standards for approval, enhanced internal control requirements, and explicit corrective measures such as revocation of approval, trustee replacement, and mandatory disclosure of violations. While these provisions strengthen accountability, some observers have raised concerns that they may increase the administrative burden on trustees, particularly smaller or newly established trusts.

Despite the fact that charitable trusts do not have corporate legal personality, they are expected to receive tax benefits comparable to those granted to public interest corporations. These include income tax deductions for donors and exemptions from capital gains and other relevant taxes. As a result, the new framework is anticipated to enhance the attractiveness and competitiveness of charitable trusts as a philanthropic vehicle.

1.9.3 Organizational Requirements

Although charitable trusts do not have a separate legal personality, the revised law imposes a solid governance framework to ensure proper management and accountability. Under the new rules, every trust must appoint a trust administrator responsible for overseeing the trustee's operations. This role is mandatory and central to safeguarding trust activities.

Trust agreements should ideally include an operating committee, which functions as an advisory body. It is strongly recommended that this committee include external experts, especially when selecting grant recipients, to enhance objectivity and fairness.

Unlike public interest corporations, trusts are not required to form formal bodies such as boards of directors or general assemblies. Instead, governance is ensured through mandatory reporting and audit processes. Trust agreements must clearly define key governance procedures, including annual business planning, conflict-of-interest prevention, and trustee replacement rules. These provisions set clear standards for transparency and enable internal controls comparable to those governing other nonprofit entities.

Together, these measures ensure that charitable trusts maintain a high standard of oversight, protect stakeholder interests, and operate with integrity, even without having corporate status.

Annex 2

Tax System by Form

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2. Tax System by Form

2.1 General Incorporated Associations and General Incorporated Foundations (Nonprofit-Type Corporations)

Under the Corporation Tax Act, general incorporated associations and foundations are classified either as nonprofit-type corporations or other-than-nonprofit-type corporations. To qualify as a nonprofit-type corporation, the entity's articles of incorporation must explicitly prohibit the distribution of surplus, stipulate that assets remaining upon dissolution are to be transferred to a public-interest organization, national or local government, etc. and ensure that no special benefits are conferred on officers or related persons. Organizations that meet these requirements are considered nonprofit-type and are taxed only on income derived from for-profit business. Such business income is limited to 34 specific categories defined in law, while all other activities remain exempt from corporate tax.

It is essential to understand, however, that achieving nonprofit-type status does not provide tax advantages for donors. Individuals or companies that make donations to these entities cannot claim deductions, credits, or corporate expense allowances based solely on the organization's tax classification. To enable such donor benefits, the organization must obtain additional recognition as a public interest corporation (i.e., a Public Interest Incorporated Association or Foundation) under the relevant authorization system.

Table 13. Tax Exemptions and Incentives for General Incorporated Associations and Foundations

| Preferential Tax Treatment | Applicability |
|--|------------------|
| Taxation Applicable to the Entity Itself | |
| Non-taxation of non-revenue-generating activities deemed to serve the public interest | Yes (Exempt) |
| Exemption from corporate income tax for revenue-generating activities* deemed to serve the public interest | No (Taxable) |
| Deemed donation (treated as donation for tax purposes) | No (Not allowed) |
| Fixed asset tax | No (Taxable) |

Table 13 (continued)

| | |
|---|------------------------------------|
| Withholding tax on interest and dividends (investment income) | No (Taxable) |
| Consumption tax | Partially exempt [†] |
| Taxation Related to Donations | |
| Deductibility of corporate donations (as business expenses) | Limited (General cap) [‡] |
| Donation tax benefits: Income tax deduction for individual donors | No (Taxable) |
| Donation tax benefits: Tax credit for individual donors | No (Taxable) |
| Exemption from capital gains tax (if proceeds are used for charitable purposes) | Yes (Exempt) |
| Exemption from inheritance tax | No (Taxable) |

* “Revenue-generating activities” refer to the 34 categories of business defined in Article 5 of the Enforcement Order of the Corporate Tax Act, which outlines the scope of taxable activities for public interest and nonprofit corporations.

† Membership fees, donations, and grants—being non-compensatory in nature—are classified as “designated income” and are not subject to consumption tax.

‡ $[\text{Capital} \times (0.25\% \times \text{months}/12) + \text{Income} \times 2.5\%] \times 1/4^*$ (standard limit)

Table 14. Overview of Tax Incentives for Donations to General Corporations (Deduction Rates and Income Limits)

| | |
|---|---|
| Deduction or tax credit rate | Not applicable |
| Income limit eligible for tax credit | Not applicable |
| (Tax) deduction rate *In the case of a corporation, inclusion in deductible expenses | Inclusion in deductible expenses (general limit) [[Capital, etc. \times 0.25% + Income amount \times 2.5%] \times 1/4] |
| Income limitation for (tax) deduction or inclusion in deductible expenses | No income limitation for corporations |

2.2 Public Interest Incorporated Associations and Public Interest Incorporated Foundations

Public Interest Incorporated Associations and Foundations are general incorporated entities that have gained public interest authorization from the Public Interest Commission. Under the Corporation Tax Act, such organizations are recognized as “Specified Public Interest Promotion Corporations,” a status that affects both their own tax obligations and the tax treatment of their donors.

These authorized entities generally pay corporate income tax only on profits from revenue-generating activities. However, the law allows activities that would typically fall under the 34 taxable business categories to remain exempt if they are authorized by the Commission as serving a charitable purpose. This mechanism—known as non-taxation of charitable purpose activities—helps nonprofit organizations pursue revenue-generating projects without incurring tax burdens, so long as those activities clearly align with their charitable mission.

Furthermore, individuals and corporations that donate to these public interest corporations benefit from preferential tax treatment. Individuals may choose between an income tax deduction or a tax credit, with more generous limits available when the contribution meets certain criteria, such as passing the Public Support Test. Corporations are also allowed higher deduction limits for contributions to these entities than they would receive under general rules. These incentives are crucial in promoting philanthropy and supporting charitable activities.

This framework ensures that public interest corporations can balance mission-driven activities with revenue generation while offering meaningful tax incentives to donors—thereby reinforcing the sustainability and impact of Japan’s nonprofit sector.

Table 15. Tax Exemptions and Incentives for Public Interest Incorporated Associations and Foundations

| Preferential Tax Treatment | Applicability |
|--|--------------------------|
| Taxation Applicable to the Entity Itself | |
| Non-taxation of non-revenue-generating activities deemed to serve the public interest | Yes (Exempt) |
| Exemption from corporate income tax for revenue-generating activities* deemed to serve the public interest | Yes (Exempt) |
| Deemed donation (treated as donation for tax purposes) | Yes (Allowed as expense) |

| | |
|---|--|
| Fixed asset tax | Partially exempt (tax exemption for charitable activities) |
| Withholding tax on interest and dividends (investment income) | Yes (Exempt) |
| Consumption tax | Partially exempt [†] |
| Taxation Related to Donations | |
| Deductibility of corporate donations (as business expenses) | Yes (special cap) [‡] |
| Donation tax benefits: Income tax deduction for individual donors | Yes (Exempt) |
| Donation tax benefits: Tax credit for individual donors | Yes (Exempt) [§] |
| Exemption from capital gains tax (if proceeds are used for charitable purposes) | Yes (Exempt) |
| Exemption from inheritance tax | Yes (Exempt) |

* "Revenue-generating activities" refer to the 34 categories of business defined in Article 5 of the Enforcement Order of the Corporate Tax Act, which outlines the scope of taxable activities for public interest and nonprofit corporations.

† Membership fees, donations, and grants—being non-compensatory in nature—are classified as "designated income" and are not subject to consumption tax.

‡ Up to 2× the standard limit (treated as donation to public interest)

§ A public interest corporation may offer tax credit benefits to individual donors if it obtains a tax credit certificate from the competent authority (Cabinet Office or prefectural government). The certificate is valid for five years and must be renewed upon expiration.

Table 16. Overview of Tax Incentives for Donations to Public Interest Corporations (Deduction Rates and Income Limits)

| | |
|---|---|
| Deduction or tax credit rate | Income deduction: Donation amount – JPY 2,000 Tax credit: (Donation amount – JPY 2,000) × 40% |
| Income limit eligible for tax credit | 25% of income tax amount (the maximum eligible donation amount is up to 40% of total income amount) |
| (Tax) deduction rate *In the case of a corporation, inclusion in deductible expenses | Inclusion in deductible expenses (special category for designated public interest promotion corporations) [[Capital, etc. × 0.375% + Income amount × 6.25%]] |
| Income limitation for (tax) deduction or inclusion in deductible expenses | No income limitation for corporations |

2.3 Specified Nonprofit Corporations and Approved Specified Nonprofit Corporations

Specified Nonprofit Corporations (SNCs) are classified as “public interest corporations, etc.” under the Corporation Tax Act. They are generally exempt from corporate taxation on income derived from charitable and nonprofit activities. However, if the organization engages in for-profit business operations, that portion of income is subject to the same corporate tax rates as those applied to regular for-profit corporations.

If an SNC obtains approval from the competent authority as an Approved Specified Nonprofit Corporation, it becomes eligible for enhanced tax benefits related to charitable donations. For individual donors, contributions to approved SNCs can be treated either as income deductions or as tax credits, depending on the donor’s preference. Corporate donors are allowed to deduct a greater portion of their contributions than is permitted under the standard rules. Furthermore, additional tax advantages are available, including exemptions from inheritance tax when donated assets are received as part of an estate, and exemptions from capital gains tax on in-kind donations such as real estate or securities.

To qualify for this approved status, an SNC must meet several conditions—most notably, the Public Support Test (PST). The PST is designed to ensure that the organization has broad-based public backing and is not controlled by a narrow group of interests. It may be satisfied through one of three pathways:

- a. Quantitative threshold (absolute standard): receiving donations of at least JPY 3,000 from 100 or more individuals or entities in a single fiscal year;
- b. Relative ratio standard: demonstrating that more than 20% of the organization’s total revenue is derived from public donations; or
- c. Designation by ordinance: being officially designated by local governments as meeting public benefit requirements under local regulations.

This approved status is valid for a period of five years. To maintain it, organizations must complete renewal procedures before the expiration of the term. Approval can be renewed for subsequent five-year periods upon satisfying the required conditions.

Through this approval system, SNCs that demonstrate a strong charitable mission and a wide base of public support can access meaningful tax incentives. These benefits not only support their financial sustainability but also enhance their legitimacy and trustworthiness in the eyes of donors and society at large.

Table 17. Tax Exemptions and Incentives for Specified Nonprofit Corporations and Approved Specified Nonprofit Corporations

| Preferential Tax Treatment | SNC | ASNC (Renewable Every 5 Years) |
|--|------------------------------------|-----------------------------------|
| Taxation Applicable to the Entity Itself | | |
| Non-taxation of non-revenue-generating activities deemed to serve the public interest | Yes (Exempt) | Yes (Exempt) |
| Exemption from corporate income tax for revenue-generating activities* deemed to serve the public interest | No (Taxable) | No (Taxable) |
| Deemed donation (treated as donation for tax purposes) | No (Not allowed) | Yes (Allowed as expense) |
| Fixed asset tax | No (Taxable) | Partially exempt |
| Withholding tax on interest and dividends (investment income) | No (Taxable) | No (Taxable) |
| Consumption tax | Partially exempt [†] | Partially exempt [†] |
| Taxation Related to Donations | | |
| Deductibility of corporate donations (as business expenses) | Limited (general cap) [‡] | Yes (special cap) [§] |
| Donation tax benefits: Income tax deduction for individual donors | No (Taxable) | Yes (Exempt) |
| Donation tax benefits: Tax credit for individual donors | Yes (Exempt) [¶] | Yes (Exempt) |
| Exemption from capital gains tax (if proceeds are used for charitable purposes) | Yes (Exempt) | Yes (Exempt) |
| Exemption from inheritance tax | Yes (Exempt) | Yes (Exempt) |

* “Revenue-generating activities” refer to the 34 categories of business defined in Article 5 of the Enforcement Order of the Corporate Tax Act, which outlines the scope of taxable activities for public interest and nonprofit corporations.

† Membership fees, donations, and grants—being non-compensatory in nature—are classified as “designated income” and are not subject to consumption tax.

‡ $[\text{Capital} \times (0.25\% \times \text{months}/12) + \text{Income} \times 2.5\%] \times 1/4^*$ (standard limit)

§ Up to 2× the standard limit (treated as donation to public interest)

¶ For Approved Specified Nonprofit Corporations, the certification itself is valid for five years and must be renewed to maintain tax benefit eligibility.

Table 18. Overview of Tax Incentives for Donations to Specified Nonprofit Corporations (Deduction Rates and Income Limits)

| | |
|---|--|
| Deduction or tax credit rate | Not applicable |
| Income limit eligible for tax credit | Not applicable |
| (Tax) deduction rate *In the case of a corporation, inclusion in deductible expenses | Inclusion in deductible expenses (general limit) [[Capital, etc. × 0.25% + Income amount × 2.5%] × 1/4] |
| Income limitation for (tax) deduction or inclusion in deductible expenses | No income limitation for corporations |

Table 19. Overview of Tax Incentives for Donations to Approved Specified Nonprofit Corporations (Deduction Rates and Income Limits)

| | |
|---|---|
| Deduction or tax credit rate | Income deduction: Donation amount – JPY 2,000 Tax credit: (Donation amount – JPY 2,000) × 40% |
| Income limit eligible for tax credit | 25% of income tax amount (the maximum eligible donation amount is up to 40% of total income amount) |
| (Tax) deduction rate *In the case of a corporation, inclusion in deductible expenses | Inclusion in deductible expenses (special category for designated public interest promotion corporations) [[Capital, etc. × 0.375% + Income amount × 6.25%]] |
| Income limitation for (tax) deduction or inclusion in deductible expenses | No income limitation for corporations |

2.4 Social Welfare Corporations

Social Welfare Corporations in Japan are nonprofit legal entities established under the Social Welfare Act, with the primary purpose of providing essential public services such as elder care, support for individuals with disabilities, and childcare. These organizations form a critical part of the country’s social safety net by delivering community-based welfare services that respond to diverse societal needs.

For tax purposes, Social Welfare Corporations are classified as “Specified Public Interest Promotion Corporations” under the Corporation Tax Act. While their revenue from public interest services is generally exempt from corporate taxation, income generated from commercial operations is taxable if it falls within one of the 34 business categories designated by law. This framework ensures that only genuinely public-serving activities receive preferential tax treatment, while revenue-generating activities of a commercial nature remain subject to standard corporate taxation.

Moreover, donations to Social Welfare Corporations are often eligible for tax incentives. Many of these organizations also qualify as “Designated Donation Recipients” under relevant tax laws, enabling both individuals and corporations to claim deductions on income or corporate taxes for their charitable contributions. These tax benefits provide a meaningful incentive for philanthropic giving and contribute to the financial sustainability of such organizations.

Through this combination of tax exemptions and incentives, the Japanese tax system actively supports the mission-driven work of Social Welfare Corporations, recognizing their role in promoting the public good and strengthening social cohesion.

Table 20. Tax Exemptions and Incentives for Social Welfare Corporations

| Preferential Tax Treatment | Applicability |
|--|--|
| Taxation Applicable to the Entity Itself | |
| Non-taxation of non-revenue-generating activities deemed to serve the public interest | Yes (Exempt) |
| Exemption from corporate income tax for revenue-generating activities* deemed to serve the public interest | No (Taxable) |
| Deemed donation (treated as donation for tax purposes) | Yes (Allowed as expense) |
| Fixed asset tax | Yes (Exempt or reduced) |
| Withholding tax on interest and dividends (investment income) | Yes (Exempt) |
| Consumption tax | Partially exempt† (Welfare Services Tax Exempt) |
| Taxation Related to Donations | |
| Deductibility of corporate donations (as business expenses) | Yes (special cap)‡ |
| Donation tax benefits: Income tax deduction for individual donors | Yes (Exempt) |
| Donation tax benefits: Tax credit for individual donors | Yes (Exempt)§ |
| Exemption from capital gains tax (if proceeds are used for charitable purposes) | Yes (Exempt) |
| Exemption from inheritance tax | Yes (Exempt) |

(notes continued on next page)

Table 20 (continued)

* “Revenue-generating activities” refer to the 34 categories of business defined in Article 5 of the Enforcement Order of the Corporate Tax Act, which outlines the scope of taxable activities for public interest and nonprofit corporations.

† Membership fees, donations, and grants—being non-compensatory in nature—are classified as “designated income” and are not subject to consumption tax.

‡ Up to 2× the standard limit (treated as donation to public interest)

§ A social welfare corporation may offer tax credit benefits to individual donors if it obtains a tax credit certificate from the competent authority. The certificate is valid for five years and must be renewed upon expiration.

Table 21. Overview of Tax Incentives for Donations to Social Welfare Corporations (Deduction Rates and Income Limits)

| | |
|---|---|
| Deduction or tax credit rate | Income deduction: Donation amount – JPY 2,000 Tax credit: (Donation amount – JPY 2,000) × 40% |
| Income limit eligible for tax credit | 25% of income tax amount (the maximum eligible donation amount is up to 40% of total income amount) |
| (Tax) deduction rate *In the case of a corporation, inclusion in deductible expenses | Inclusion in deductible expenses (special category for designated public interest promotion corporations) [[Capital, etc. × 0.375% + Income amount × 6.25%]] |
| Income limitation for (tax) deduction or inclusion in deductible expenses | No income limitation for corporations |

2.5 Private School Corporations

Private School Corporations are nonprofit legal entities established under the Private Schools Act to operate educational institutions such as kindergartens, elementary and secondary schools, and universities. These corporations play a key role in Japan’s educational landscape by providing formal education through privately managed schools.

Under the Corporate Tax Act, Private School Corporations are treated as “public interest corporations,” which entitles them to preferential tax treatment in recognition of their public service function. In principle, income derived from core educational activities—such as tuition fees—is exempt from corporate income tax, as these activities are considered to serve the public good.

However, if a Private School Corporation engages in revenue-generating activities falling under the 34 business types listed in Article 5 of the Enforcement Order of the Corporate Tax Act—such as operating cafeterias, bookstores, or rental facilities—the income from such activities is subject to taxation. This rule ensures that tax benefits are limited to genuinely educational and public-interest-related operations.

Donations to Private School Corporations also enjoy favorable tax treatment. Individual donors may claim income tax deductions, while corporate donors may deduct contributions both within the standard limits and under the special provisions for public

interest promotion corporations. These tax incentives play a crucial role in securing financial resources for private educational institutions.

Through this legal and fiscal framework, Japan supports the essential role that Private School Corporations play in expanding access to quality education and contributing to the public interest.

Table 22. Tax Exemptions and Incentives for Private School Corporations

| Preferential Tax Treatment | Applicability |
|--|--|
| Taxation Applicable to the Entity Itself | |
| Non-taxation of non-revenue-generating activities deemed to serve the public interest | Yes (Exempt) |
| Exemption from corporate income tax for revenue-generating activities* deemed to serve the public interest | No (Taxable) |
| Deemed donation (treated as donation for tax purposes) | Yes (Allowed as expense) |
| Fixed asset tax | Yes (Exempt or reduced) |
| Withholding tax on interest and dividends (investment income) | Yes (Exempt) |
| Consumption tax | Partially exempt [†] (Tuition Fees Tax Exempt) |
| Taxation Related to Donations | |
| Deductibility of corporate donations (as business expenses) | Yes (special cap) [‡] |
| Donation tax benefits: Income tax deduction for individual donors | Yes (Exempt) |
| Donation tax benefits: Tax credit for individual donors | Yes (Exempt) [§] |
| Exemption from capital gains tax (if proceeds are used for charitable purposes) | Yes (Exempt) |
| Exemption from inheritance tax | Yes (Exempt) |

* "Revenue-generating activities" refer to the 34 categories of business defined in Article 5 of the Enforcement Order of the Corporate Tax Act, which outlines the scope of taxable activities for public interest and nonprofit corporations.

† Membership fees, donations, and grants—being non-compensatory in nature—are classified as "designated income" and are not subject to consumption tax.

‡ Up to 2× the standard limit (treated as donation to public interest)

§ A private school corporation may offer tax credit benefits to individual donors if it obtains a tax credit certificate from the competent authority. The certificate is valid for five years and must be renewed upon expiration.

Table 23. Overview of Tax Incentives for Donations to Private School Corporations (Deduction Rates and Income Limits)

| | |
|---|---|
| Deduction or tax credit rate | Income deduction: Donation amount – JPY 2,000 Tax credit: (Donation amount – JPY 2,000) × 40% |
| Income limit eligible for tax credit | 25% of income tax amount (the maximum eligible donation amount is up to 40% of total income amount) |
| (Tax) deduction rate *In the case of a corporation, inclusion in deductible expenses | Inclusion in deductible expenses (special category for designated public interest promotion corporations) [(Capital, etc. × 0.375% + Income amount × 6.25%)] |
| Income limitation for (tax) deduction or inclusion in deductible expenses | No income limitation for corporations |

2.6 Religious Corporations

Religious Corporations are nonprofit entities established under the Religious Corporations Act, primarily to support religious activities such as conducting ceremonies, maintaining places of worship, and transmitting religious teachings. For tax purposes, they are classified as “public interest corporations” under the Corporate Tax Act. Accordingly, income that is directly related to their religious missions—such as offerings, membership fees, and fees for rituals—is exempt from corporate income tax.

However, when Religious Corporations engage in revenue-generating activities that are not inherently connected to their religious purpose, such as operating paid parking lots or leasing real estate, the income from such ventures is considered taxable. This distinction ensures that only activities genuinely aligned with the religious organization’s charitable purpose benefit from tax exemption.

Unlike other types of charitable and nonprofit entities, Religious Corporations are not generally eligible for favorable tax treatment regarding donations. Contributions made to them do not qualify for income tax deductions for individual donors or corporate tax deductions for companies. This exclusion reflects a policy stance designed to maintain the constitutional principle of separation between religion and state, while also encouraging transparency and accountability in other sectors of civil society that receive broader public support.

Thus, while Religious Corporations benefit from tax exemptions on income derived from core religious functions, they are subject to taxation on revenue-generating activities and do not enjoy the same donation-related tax incentives available to other approved public interest organizations or specified nonprofit corporations.

Table 24 .Tax Exemptions and Incentives for Religious Corporations

| Preferential Tax Treatment | Applicability |
|--|---|
| Taxation Applicable to the Entity Itself | |
| Non-taxation of non-revenue-generating activities deemed to serve the public interest | Yes (Exempt) |
| Exemption from corporate income tax for revenue-generating activities* deemed to serve the public interest | No (Taxable) |
| Deemed donation (treated as donation for tax purposes) | No (Not allowed) |
| Fixed asset tax | Yes (Exempt) |
| Withholding tax on interest and dividends (investment income) | Yes (Exempt) |
| Consumption tax | Partially exempt† (Offertories & Ceremony Fees Tax Exempt) |
| Taxation Related to Donations | |
| Deductibility of corporate donations (as business expenses) | Limited (general cap)‡ *Partially special cap§ |
| Donation tax benefits: Income tax deduction for individual donors | No (Taxable)§ |
| Donation tax benefits: Tax credit for individual donors | No (Taxable)§ |
| Exemption from capital gains tax (if proceeds are used for charitable purposes) | Yes (Exempt) |
| Exemption from inheritance tax | Yes (Exempt) |

* “Revenue-generating activities” refer to the 34 categories of business defined in Article 5 of the Enforcement Order of the Corporate Tax Act, which outlines the scope of taxable activities for public interest and nonprofit corporations.

† Membership fees, donations, and grants—being non-compensatory in nature—are classified as “designated income” and are not subject to consumption tax.

‡ $[\text{Capital} \times (0.25\% \times \text{months}/12) + \text{Income} \times 2.5\%] \times 1/4^*$ (standard limit)

§ Donations for core religious activities are not eligible for tax benefits, but those for public interest projects (e.g., education, welfare) may qualify if certified by the competent authority as a “Specified Public Interest Promotion Corporation”; if so certified, the organization may also obtain tax credit certification.

Table 25. Overview of Tax Incentives for Donations to Religious Corporations (Deduction Rates and Income Limits)

| | |
|--|--|
| Deduction or tax credit rate | Not applicable |
| Income limit eligible for tax credit | Not applicable |
| (Tax) deduction rate *In the case of a corporation, inclusion in deductible expenses | Inclusion in deductible expenses (general limit) [(Capital, etc. × 0.25% + Income amount × 2.5%) × 1/4] |
| Income limitation for (tax) deduction or inclusion in deductible expenses | No income limitation for corporations |

2.7 Medical Corporations

2.7.1 General Medical Corporations

Most new medical corporations established after the 2007 revision of the Medical Care Act fall under this category. They may accept capital contributions from founders, which can be returned upon dissolution up to the original amount. While profit distribution is prohibited during operation, these corporations are taxed like ordinary business entities: all income, including from medical services, is subject to the standard corporate tax rate (currently 23.2%).

They are not eligible for any tax exemption or preferential treatment, including for donations. Contributions to General Medical Corporations are not tax-deductible for either individuals or corporations, limiting their appeal for fundraising.

2.7.2 Specified Medical Corporations

These are medical corporations approved by the Commissioner of the National Tax Agency under strict legal requirements. To qualify, a corporation must be a non-equity type (such as a foundation) and meet conditions including a ban on profit-sharing, strict governance rules (e.g., no more than one-third of board members may be relatives), and a high share of income from core medical services.

While treated as public interest corporations for tax purposes, they are still subject to corporate income tax. However, the rate is reduced to 19% for income exceeding JPY 8 million. Donations to these corporations are not eligible for individual income tax deductions or credits. Corporate donations are treated under the general deduction cap, without special treatment.

2.7.3 Social Medical Corporations

Established under the 2007 reform, Social Medical Corporations are recognized by prefectural governors for providing highly necessary public health services—such as emergency care, perinatal care, and rural medicine. They must be non-equity in structure and meet strict conditions on governance and service provision. They benefit from significant tax advantages: income from core medical services is tax-exempt, and only ancillary revenue is taxed at reduced rates (15% for the first JPY 8 million, 19% thereafter). Real estate used for public-interest healthcare may be exempt from fixed asset and real estate acquisition taxes.

These corporations may also issue Social Medical Corporation Bonds under regulatory oversight to support infrastructure and operations. Despite their public-interest role, donations to Social Medical Corporations are not eligible for income tax deductions or credits. Corporate donations are only deductible under the general limit. While there is ongoing advocacy for extending donation-related tax incentives to these entities, no legal reform has been implemented.

Japan's tax framework distinguishes Medical Corporations based on their structure and public role. General Medical Corporations are taxed like for-profit entities, Specified Medical Corporations benefit from a reduced tax rate, and Social Medical Corporations receive exemptions on core medical income. However, donation-based tax incentives are not available to any type of Medical Corporation, and all corporate donations fall under the standard deduction cap.

Table 26. Tax Exemptions and Incentives for Medical Corporations

| Preferential Tax Treatment | General | Specified | Social |
|--|------------------|---|--|
| Taxation Applicable to the Entity Itself | | | |
| Non-taxation of non-revenue-generating activities deemed to serve the public interest | No (Taxable) | No (Taxable) (application of a reduced tax rate) | Yes (Exempt) |
| Exemption from corporate income tax for revenue-generating activities* deemed to serve the public interest | No (Taxable) | No (Taxable) | No (Taxable) |
| Deemed donation (treated as donation for tax purposes) | No (Not allowed) | No (Not allowed) | Yes (Allowed as exempt portion) [†] |
| Fixed asset tax | No (Taxable) | No (Taxable) | Yes (Exempt) |

Table 26 (continued)

| | | | |
|---|------------------------------------|------------------------------------|--------------------------------------|
| Withholding tax on interest and dividends (investment income) | No (Taxable) | Partially exempt (Conditional) | Yes (Exempt) |
| Consumption tax | Partially exempt [‡] | Partially exempt [‡] | Yes (Exempt) [‡] Medical |
| Taxation Related to Donations | | | |
| Deductibility of corporate donations (as business expenses) | Limited (general cap) [§] | Limited (general cap) [§] | Limited (general cap) [§] |
| Donation tax benefits: Income tax deduction for individual donors | No (Taxable) | No (Taxable) | No (Taxable) |
| Donation tax benefits: Tax credit for individual donors | No (Taxable) | No (Taxable) | No (Taxable) |
| Exemption from capital gains tax (if proceeds are used for charitable purposes) | Partially exempt | Partially exempt | Yes (Exempt) |
| Exemption from inheritance tax | Partially exempt | Partially exempt | Yes (Exempt) [¶] |

* "Revenue-generating activities" refer to the 34 categories of business defined in Article 5 of the Enforcement Order of the Corporate Tax Act, which delineate taxable business activities for public interest and nonprofit corporations. (In the case of Social Medical Corporations, income from insured medical treatment is excluded from these taxable categories, as it is regarded as non-profit core activity.)

† Social Medical Corporations can treat profits from revenue businesses as if donated to their medical services, reducing taxable income

‡ General and specified medical corporations: core medical services are exempt from consumption tax by law, but other taxable activities are subject to consumption tax. (Membership fees, donations, and grants are non-taxable). Social Medical Corporation: Medical services are exempt; additionally, Social Medical Corporations benefit from broader consumption tax exemptions for their public interest activities.

§ $[\text{Capital} \times (0.25\% \times \text{months}/12) + \text{Income} \times 2.5\%] \times 1/4^*$ (standard limit)

¶ Medical services are exempt; bequests to Social Medical Corporations are treated as charitable bequests and are not subject to inheritance tax.

Table 27. Overview of Tax Incentives for Donations to Medical Corporations (Deduction Rates and Income Limits)

| | |
|---|--|
| Deduction or tax credit rate | Not applicable |
| Income limit eligible for tax credit | Not applicable |
| (Tax) deduction rate *In the case of a corporation, inclusion in deductible expenses | <p>General Medical Corporations: Inclusion in deductible expenses (general limit) [(Capital, etc. × 0.25% + Income amount × 2.5%) × 1/4]</p> <p>Specified, Social Medical Corporations: Inclusion in deductible expenses (special category for designated public interest promotion corporations) [(Capital, etc. × 0.375% + Income amount × 6.25%)]</p> |
| Income limitation for (tax) deduction or inclusion in deductible expenses | No income limitation for corporations |

2.8 Rehabilitation Corporations

Rehabilitation Corporations are nonprofit legal entities established under the Offenders Rehabilitation Services Act. They play a crucial societal role by supporting the reintegration of former offenders through services such as housing, training, counseling, and employment assistance.

For tax purposes, these corporations are treated as public interest corporations under the Corporation Tax Act. This classification ensures that income generated directly from their rehabilitation activities is exempt from corporate tax, while only profits from designated commercial operations—if any—are taxable.

In terms of donations, both individuals and corporate donors may benefit from preferential tax treatment, provided the Rehabilitation Corporation meets certain criteria. Individual contributors can claim either an income tax deduction or a tax credit, and corporations can receive special deductions beyond the general allowance. A key feature is the tax credit certificate issued by the Ministry of Justice—the supervising authority—which enables qualifying donations to be eligible for enhanced tax credits.

By combining tax exemptions and structured incentives, Japan’s tax system supports the mission of Rehabilitation Corporations, reinforcing their vital work in crime prevention and community welfare.

Table 28. Tax Exemptions and Incentives for Rehabilitation Corporations

| Preferential Tax Treatment | Applicability |
|--|---|
| Taxation Applicable to the Entity Itself | |
| Non-taxation of non-revenue-generating activities deemed to serve the public interest | Yes (Exempt) |
| Exemption from corporate income tax for revenue-generating activities* deemed to serve the public interest | No (Taxable) |
| Deemed donation (treated as donation for tax purposes) | Yes (Allowed as expense) |
| Fixed asset tax | Yes (Exempt) |
| Withholding tax on interest and dividends (investment income) | Yes (Exempt) |
| Consumption tax | Partially exempt [†] (Rehabilitation Services Tax Exempt) |
| Taxation Related to Donations | |
| Deductibility of corporate donations (as business expenses) | Yes (special cap) [‡] |
| Donation tax benefits: Income tax deduction for individual donors | Yes (Exempt) |
| Donation tax benefits: Tax credit for individual donors | Yes (Exempt) [§] |
| Exemption from capital gains tax (if proceeds are used for charitable purposes) | Yes (Exempt) |
| Exemption from inheritance tax | Yes (Exempt) |

* "Revenue-generating activities" refer to the 34 categories of business defined in Article 5 of the Enforcement Order of the Corporate Tax Act, which outlines the scope of taxable activities for public interest and nonprofit corporations.

† Membership fees, donations, and grants—being non-compensatory in nature—are classified as "designated income" and are not subject to consumption tax.

‡ Up to 2× the standard limit (treated as donation to public interest)

§ A rehabilitation corporation may offer tax credit benefits to individual donors if it obtains a tax credit certificate from the competent authority. The certificate is valid for five years and must be renewed upon expiration.

Table 29. Overview of Tax Incentives for Donations to Rehabilitation Corporations (Deduction Rates and Income Limits)

| | |
|---|---|
| Deduction or tax credit rate | Income deduction: Donation amount – JPY 2,000 Tax credit: (Donation amount – JPY 2,000) × 40% |
| Income limit eligible for tax credit | 25% of income tax amount (The maximum eligible donation amount is up to 40% of total income amount) |
| (Tax) deduction rate *In the case of a corporation, inclusion in deductible expenses | Inclusion in deductible expenses (special category for designated public interest promotion corporations) [[Capital, etc. × 0.375% + Income amount × 6.25%]] |
| Income limitation for (tax) deduction or inclusion in deductible expenses | No income limitation for corporations |

2.9 Charitable Trusts

Charitable trusts—though not established as separate corporations—are treated similarly to Specified Public Interest Promotion Corporations for tax purposes. Income generated from trust assets used for charitable purposes enjoys exemption from both corporate and personal income tax, provided the trust adheres strictly to its charitable purpose. These trusts are explicitly barred from engaging in profit-making revenue-generating activities, ensuring their focus remains on advancing charitable goals.

Individuals and corporations wishing to support these trusts can deduct donations under the same regulations that apply to donations made to authorized public interest corporations. However, there is a notable distinction in personal tax treatment: while donors to incorporated public interest bodies may choose between an income tax deduction or a tax credit, donations to charitable trusts only qualify for an income tax deduction, not a tax credit.

Additionally, trusts can receive valuable tax provisions not otherwise available: assets transferred by way of inheritance or as gifts to establish or contribute to a charitable trust are exempt from both inheritance and gift tax. Furthermore, the income generated by trust assets remains tax-exempt at both trustee and settlor levels. These measures collectively enhance the trust’s capacity to preserve principal funds while supporting philanthropic activity.

In summary, while charitable trusts are not corporate entities, Japan’s tax framework offers them favorable treatment on income and asset transfer taxes. Nonetheless, personal donors are limited to deductions and cannot benefit from tax credits—representing a more modest incentive compared to the full suite of benefits available for incorporated public interest bodies.

Table 30. Tax Exemptions and Incentives for Charitable Trusts

| Preferential Tax Treatment | Applicability |
|--|--|
| Taxation Applicable to the Entity Itself | |
| Non-taxation of non-revenue-generating activities deemed to serve the public interest | Yes (Exempt) |
| Exemption from corporate income tax for revenue-generating activities* deemed to serve the public interest | Yes (Exempt) |
| Deemed donation (treated as donation for tax purposes) | No (Not allowed) |
| Fixed asset tax | Partially exempt (Tax Exemption for Trust Assets) |
| Withholding tax on interest and dividends (investment income) | Yes (Exempt) |
| Consumption tax | Partially exempt (Subject to the Nature of the Trust) [†] |
| Taxation Related to Donations | |
| Deductibility of corporate donations (as business expenses) | Yes (special cap) [‡] |
| Donation tax benefits: Income tax deduction for individual donors | Yes (Exempt) |
| Donation tax benefits: Tax credit for individual donors | No (Taxable) |
| Exemption from capital gains tax (if proceeds are used for charitable purposes) | Yes (Exempt) |
| Exemption from inheritance tax | Yes (Exempt) |

* “Revenue-generating activities” refer to the 34 categories of business defined in Article 5 of the Enforcement Order of the Corporate Tax Act, which outlines the scope of taxable activities for public interest and nonprofit corporations.

[†] Membership fees, donations, and grants—being non-compensatory in nature—are classified as “designated income” and are not subject to consumption tax.

[‡] Up to 2× the standard limit (treated as donation to public interest)

Table 31. Overview of Tax Incentives for Donations to Charitable Trusts (Deduction Rates and Income Limits)

| | |
|---|---|
| Deduction or tax credit rate | Income deduction: Donation amount – JPY 2,000 |
| Income limit eligible for tax credit | 25% of income tax amount (The maximum eligible donation amount is up to 40% of total income amount) |
| (Tax) deduction rate *In the case of a corporation, inclusion in deductible expenses | Inclusion in deductible expenses (special category for designated public interest promotion corporations) [[Capital, etc. × 0.375% + Income amount × 6.25%]] |
| Income limitation for (tax) deduction or inclusion in deductible expenses | No income limitation for corporations |

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About the Japan Association of Charitable Organizations (JACO)

The Japan Association of Charitable Organizations (JACO) is a Public Interest Incorporated Foundation that aims to contribute to the sound development and advancement of public-interest corporations and, in turn, to promote the public interest in Japan.

As a nationwide intermediary support organization, JACO provides advisory and consultation services to public-interest corporations and other nonprofit organizations on matters such as governance, accounting, taxation, and legal compliance, and conducts training and seminars, research, and information dissemination. Through the publication of its journal *Koeki-Hojin* and specialized books, JACO disseminates knowledge and best practices related to the public-interest corporation system and its operation.

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