

# VLT Legal Update

November 2024

## New Freelance Law to Take Effect in November 2024

On 1 November 2024, a landmark law aimed at regulating and protecting the growing freelance workforce in Japan, officially known as the "Act on Ensuring Proper Transactions Involving Specified Entrusted Business Operators" (Freelance Law) will take effect with the goal of improving a freelancer's working environment.

### *Definition of Freelancers*

Under the Freelance Law, freelancers are defined as:

1. Contractors, not a corporation, who do not employ any employees, and
2. Contractors and corporations, who do not have directors other than a representative director, that also do not employ any employees.

Any business operator who entrusts business to a freelancer is considered a contracting party.

There are no limitations on sectors or industries, and the Freelance Law applies to all transactions in which work is outsourced to freelancers.

### *Key Provisions*

Some of the key provisions to be aware of in the new law are as follows:

#### 1. **Terms Required to Be Provided in Writing**

A business operator is required to indicate certain terms electronically or in writing immediately after engaging a freelancer to provide deliverables. At least the following terms must clearly be indicated when engaging a freelancer:

- Scope of the deliverables
- Payment amounts, and
- Due date of any payments.

#### 2. **Timely Payments**

Payments for deliverables must be made within 60 days of the contracting party's receipt of the deliverable, unless the contract involves work that has been subcontracted to the freelancer. In the event that the agreement involves subcontracted work, the contracting party must pay the freelancer within 30 days after the contracting party has received payment from the principal client. Where the payment due date has not been set, the payment must be made no later than the date the freelancer's service has been received. If the contract terms reflect a due date later than 60 days after the business operator has received the deliverables, this provision will be deemed invalid, and the payment will be due after 60 days elapse.

#### 3. **Prohibition on Unfair Practices**

In order to prevent power imbalances that may arise in freelance transactions, contracting parties are prohibited from engaging in unfair practices, including the following:

- Refusing to accept completed work without there being any reason attributable to the freelancer;
- Arbitrarily reducing agreed-upon payment without there being any reason attributable to the freelancer;
- Forcing a freelancer to take back deliverables without there being any reason attributable to the freelancer;
- Setting an unreasonably low payment amount for the deliverables as compared with fair market value of deliverables of the same or a similar nature;

### Additional Links

Note all links are Japanese language only.

- [Freelance Law](#)
- [MHWL Pamphlet](#)
- [SME Agency Pamphlet](#)

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- Forcing freelancers to purchase goods or services designated by the contracting party, unless doing so is necessary to standardize or improve the content of the deliverables or other reasonable grounds exist.

### ***Improvements to Working Environment Conditions***

The Freelance Law also introduced several measures aimed at improving the overall work environment for freelancers:

#### **1. 30-Day Termination Notice Requirement**

For ongoing or continuous contracts, contracting parties must now provide 30 days' notice before terminating an agreement (including when notice is for non-renewal), unless there are reasonable grounds for immediate termination, such as when there are reasons attributable to the freelancer.

#### **2. Harassment Prevention Measures**

Contracting parties must take proactive steps to prevent harassment against freelancers such as consulting with a freelancer who issues a complaint about sexual harassment, power harassment or any other inappropriate behavior.

#### **3. Flexibility for Caregivers and Parents**

Contracting parties must consider requests to accommodate their caregiving or parental responsibilities from freelancers who are engaged in continuous contracts, so that freelancers can balance their work with their caregiving or parental responsibilities.

### ***Penalties***

Breaches of the Freelance Law can lead relevant authorities including the Fair Trade Commission, the Director General of the Small and Medium Enterprise Agency, or the Ministry of Health, Labor, and Welfare to issuing recommendations, making public the contracting party's breach, and/or issuing orders for on-site inspections. Violations may also be subject to a fine of up to 500,000 JPY, depending on the violation.

### ***Recommended Actions and Future Considerations***

Companies should review any freelance arrangements to ensure that they comply with the Freelance Law. Companies should also be aware that the law is scheduled to be reviewed in 3 years and amendments to the law are likely in order to address the evolving freelance landscape.