

## Japan tax alert

Ernst & Young Shinnihon Tax

# Japan implements Asian Business Location incentives

### Executive summary

On 3 August 2012, Asian Business Location Law was promulgated and became effective from years ending on or after 1 November 2012. Asian Business Location Law provides tax incentives for corporations having new R&D or headquarters operations conducted in Japan by global companies.

### 20% income deduction for corporate tax purposes

The details of the corporate tax incentive are as follows:

- ▶ Maximum 20% deduction of income arising from R&D or international management business activities
- ▶ Applicable to a Japanese corporation subject to a blue return filing requirement exclusively conducting R&D business or international management business
- ▶ Pre-approval required by a designated minister of R&D business plan or supervisory business plan
- ▶ Applicable for five years from the date of R&D plan approval granted between 1 November 2012 and 31 March 2014

A company conducting R&D business must choose for each fiscal year either an income deduction or a R&D tax credit.

Target companies are new investors that will be building up new R&D facilities by recruiting highly skilled researchers for innovation or conducting regional headquarters (RHQ) activities by employing managerial talents.

## Criteria

- ▶ A Japanese company with one or more foreign affiliated companies
- ▶ Engaged in global business activities
- ▶ Possessing advanced knowledge and technology
- ▶ No affiliated company is currently engaged in contemplated R&D or RHQ activities in Japan
- ▶ The company must be newly established in Japan and employ at least 10 employees at the beginning and 25 (R&D)/18 (RHQ) when the incentive ends
- ▶ The company must be solely engaged in R&D or RHQ activities

In order to apply for the incentive, the applicant must submit a business plan in Japan and be approved by the designated minister.

## Implications

The Asian Business Location Law provides an attractive tax incentive. Business entities that intend to commence their R&D or RHQ business activities in Japan should consider if the incentive is applicable.

Comments or general inquiries regarding this tax alert may be directed to our Corporate Communications team at [tax.marketing@jp.ey.com](mailto:tax.marketing@jp.ey.com).

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