

Japan tax alert

Ernst & Young Shinnihon Tax

2013 Japan tax reform outline

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On 24 January, the 2013 tax reform outline was released. The outline was mainly drafted by the Liberal Democratic Party who returned to power after three years thanks to a resounding victory in the Lower House elections in December. We highlight the major reforms and revisions below. Some of the following reforms may be subject to change, deletion or addition as the law passes through the Diet.

The tax reform outline (in Japanese) can be accessed from the following link:

http://www.jimin.jp/policy/policy_topics/pdf/pdf085_1.pdf

Corporate tax

- ▶ **Revision of tax credit for R&D expenses**

Credit limit for "the total expense type" raised from 20% to 30% of the current corporate tax payable - a two year temporary measure.

- ▶ **New tax regime for the enhancement of domestic capital investment (temporary measure)**

Tax credits and special depreciation rules introduced for newly acquired equipment and devices when investment amount in factories or machinery used for business in Japan increases by a certain amount from the previous year - a two year temporary measure.

- ▶ **Expansion of tax regime for employment promotion**

Tax credit for employers who increase the number of employees raised to JPY400,000 per person (currently JPY200,000).

- ▶ **Introduction of rules to expand labor's share of income**

New tax credit for employers who increase wages or bonuses of employees by a certain amount - a three year temporary measure.

- ▶ **Measures to support small and medium businesses**

New tax credit and special depreciation rules created for small capital investment by small and medium businesses (a two year temporary measure). Rules for deduction of entertainment expenses also revised: special deduction limit for small and medium businesses raised to JPY8 million (currently JPY6 million) and non-deductible portion of expenses under the deduction limit (currently 10%) abolished.

Income tax

- ▶ **Increase in top tax rate, revision of tax brackets**

Top tax rate raised from 40% to 45% (for taxable income over JPY40 million).

Inheritance and gift taxes

- ▶ **Increase in top tax rates, revision of tax brackets and reduction of inheritance tax basic deduction (inheritance tax)**

Top tax rate for inheritance tax raised from 50% to 55%. Basic deduction reduced to JPY30 million + JPY6 million x number of legal heirs (currently JPY50 million + JPY10 million x number of legal heirs).

- ▶ **Promotion of intergenerational transfer of assets (gift tax)**

Tax exemption measure introduced for lump-sum gifts of educational costs to lineal descendants (up to JPY15 million per person).

Revisions relating to the consumption tax rate increase (in April 2014)

- ▶ **Support for low-wage earners**

Lower tax rates on necessities will not be introduced when rate increases to 8% but may be introduced when rate becomes 10%.

- ▶ **Tax reduction regime for housing mortgages revised and expanded**

Tax reduction regime for housing mortgages, due to expire end of 2013, to be extended for four years. Limit on loan balances eligible for the regime to be raised to JPY40 million in April 2014. Maximum tax credit amount from income tax, etc. over 10 years is JPY4 million (JPY400,000 x 10).

- ▶ **Abolition of automobile acquisition tax**

To be abolished when the consumption tax rate increases to 10%.

Other

▶ **Revision and expansion of Japanese ISAs (to be introduced January 2014)**

Period of use for tax-exempt bank accounts extended from 3 years to 10 years.

▶ **Revision of financial income offset rules**

Offset possible for capital gains/losses and dividend income from listed shares with capital gains and interest income from specified corporate and government bonds (starting 2016).

▶ **Relaxation of requirements in business succession tax regime**

Family succession requirement and job security requirement relaxed.

▶ **Reduction of interest rates on late tax payments**

▶ **Closure of avoidance schemes for inheritance and gift tax using foreign nationalities**

▶ **Revision of transfer pricing guidance**

The rules will be amended to allow the use of the Berry Ratio as a profit level indicator for calculating the arm's length price.

Comments or general inquiries regarding this tax alert may be directed to our Corporate Communications team at tax.marketing@jp.ey.com.

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