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Japan tax alert

Ernst & Young Tax Co.

Tax reform 2015 update

The preliminary quarterly GDP estimates, released on 17 November 2014, highlighted that the Japanese economy has not returned to a growth track. The Prime Minister therefore announced a delay in the planned hike of the consumption tax rate to 10% by 18 months and dissolved the House of Representatives. The 2015 tax reform proposal, usually submitted in mid-December, might as a consequence of the upcoming elections be released with some delay, causing a push back in subsequent steps. However, the Government appears to be determined to pass the ordinary fiscal 2015 budget as well as a supplementary budget in time.

The tax reform proposal is expected to consider the following measures in the fields of corporate, consumption and personal income taxation:

- Decrease of the effective corporate tax rate from currently 35.6% by roughly 2% with a target of continuing tax rate decreases over the coming years to a level of 30% or below
- Increase of minimum taxation rule threshold, under which currently 20% of current year income is ineligible to be set-off against tax losses (NOL), to possibly 40% or higher
- Revision of the tax loss carry forward period
- Increase of the enterprise tax per value added tax base
- Revision of requirements to qualify for tax exempt inter-group dividend receipts
- April 2017 increase of the consumption tax rate to 10% without any provisos for decisions based on the economic climate
- Application of consumption tax on cross-border services, in particular digital content (http://www.eytax.jp/pdf/newsletter/2014/Japan_tax_alert_9_July_2014_E2.pdf)
- Taxation of built-in profits in shares held by taxpayers emigrating overseas – whether this rule will apply to Japanese nationals and low-tax jurisdiction exits only is unclear

Taxpayers may wish to consider the corporate and personal income tax consequences of 2014 calendar year-end transactions. As of 1 January 2015, the marginal income tax rate (e.g. on bonus payments) will increase to 55.9% and the corporate tax rate of companies closing by 31 December will decrease from currently 38% to 35.6% (and possibly 34% from 2015 on). Also, in 2014, companies might be able to improve their employment tax credit position when expensing performance-based compensation by 31 December.

To qualify for the recently introduced 50% tax deductibility of entertainment expenses, calendar-year companies should separately account for meal-related entertainment beginning 1 January.

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