22 December 2016

Japan tax newsletter

Ernst & Young Tax Co.

2017 Japan tax reform outline

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Contents

- Corporate taxation........................2
- International taxation...................9
- Individual income taxation and property taxation........................18
- Tax administration and others 21

On 8 December 2016, the Liberal Democratic Party and Komeito approved the Japan 2017 Tax Reform Outline (Outline), which proposes a comprehensive reform to Japan corporate income tax, tax incentives, directors' compensation, and similar rules to increase the competitiveness of Japanese business globally. A tax reform bill will be prepared based on the outline, and is expected to be enacted by the Diet (Japan legislature) by the end of March 2017.

Please note that information contained in this newsletter is subject to amendments, deletion and enhancement through further deliberations by the Diet.

Specifically, this newsletter will address pending 2017 tax reforms to spouses deductions, research and development (R&D), investment, and wage-based tax credit incentives, nonrecognition reorganization rules, controlled foreign company (CFC) tax haven rules, and related items. In addition, this newsletter will reference key policy drivers, such as, boosting Japanese domestic investment and technological innovations, strengthening corporate governance, etc.

This newsletter will provide an overview of the major reform and revision items in connection with corporate, individual, and international tax rules, and related policy concerns as referenced in the Outline.

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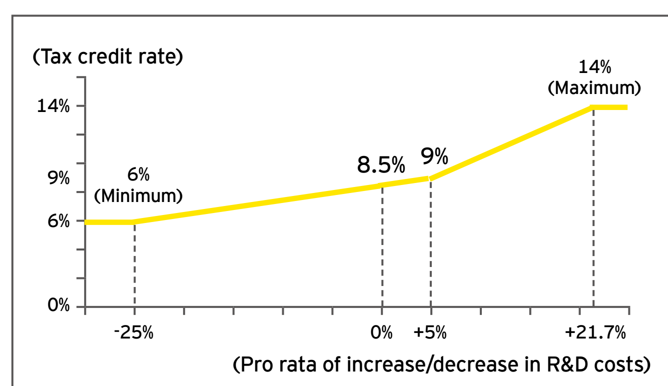
Corporate taxation

Revisions to the R&D tax credit incentives

The following revisions will be made to the R&D tax credit incentives.

1. **Revisions to gross-type credit**

   As a gross-type credit, under the current rules, a credit of 8%-10% can be taken based on the R&D cost ratio (R&D costs ÷ average sales). This will be changed into a system in which the tax credit rate (6%-14%) will be linked to the pro rata increase or decrease in R&D costs, as shown below, in order to strengthen the incentive to increase investment in R&D.



Note 1: The tax credit rate is calculated according to the following formula.

Increase/decrease (Note 2)	Tax credit (Notes: 3,4)
More than +5%	9% + (increase/decrease % - 5%) x 0.3
-25% to +5%	9% - (5% - increase/decrease %) x 0.1
More than -25%	6%

Note 2: The increase/decrease percentage is calculated using the following formula.

$$\text{Increase/decrease percentage} = \frac{\text{R\&D costs} - \text{3yr average R\&D cost}}{\text{3yr average R\&D cost}}$$

Note 3: The maximum tax credit is 10%, but will be increased to 14% within a two-year transition period.

Note 4: For certain small and medium-sized enterprises (SME), the tax credit will remain at 12%, and where the increase in R&D costs is over 5%, the tax credit will increase up to 17% according to the percentage of increase.

2. **Repeal of the incremental-type credit and extension of the excess-type credit**

   The Outline proposes a repeal to the incremental-type credit. However, the excess-type credit will be extended by two years.

3. **Top-up measure for the gross-type credit**

   If the R&D cost ratio (R&D costs ÷ average sales) is over 10%, a "top-up" measure can be applied to the gross-type credit maximum (25% of current year corporate tax). Depending on the R&D cost ratio (10%-15%), the total cost incentive maximum may be increased to 35%.

4. **Special R&D costs (open innovation)**

   With regards to open innovation R&D costs (for which the tax credit was increased and the scope was expanded in the 2015 tax reforms), with the aim of encouraging further advancement, reforms will be made to: (i) expand the types of costs eligible for tax credits, (ii) improve flexibility in the case of additions or changes to cost items due a contractual change, and (iii) simplify the confirmation process of expenses by counterparty.

5. **Addition of service development costs**

   In order to incentivize new business development in the quaternary industries (including IT, big data, AI, and similar services), service development costs in the quaternary industry will be included in the scope of R&D costs eligible for tax credit. Eligible service development costs will include materials, personnel, business and outsourcing expenses required to (i) collect large volumes of data using automated devices or technology, (ii) analyze the collected data (iii) develop new services using the data and principles found from the data analysis, and (iv) observe and record the effect of the new services or the principles found.

   Examples of such service development expenses are: expenses of a health care service which provides optimal fitness plans through collection and analysis of individuals' health data using sensors; and expenses of an agricultural support service which provides effective agricultural data through collection and analysis of soil temperature data using sensors, etc.

The previously existing requirements for applying the special R&D tax credits were strict and in practice did not function as a true incentive. However, under the new reforms, administrative procedures will be somewhat relaxed and it should be easier to use the system. Also, now that service development costs will be included in the scope of R&D costs, credits can be applied to types of business that were excluded under the current rules.

Wage increase incentive

The tax credit incentive given for increases in salary payments by employers (the wage increase incentive) will be expanded as follows.

1. **Average salary requirement**

   For companies other than qualified SMEs, one of the three requirements in the current rules is that average salary payments exceed average salary payments in the previous fiscal year. This will be amended to an increase of at least 2%. The wage increase incentive applied to business scale taxation will be revised in the same manner.

   On the other hand, if the requirements are fulfilled, in addition to the current tax credit of 10% of the increase in employer's salary payments, an extra tax credit of 2% of the lower of either the increase over the base year or the increase over the previous fiscal year will be added. Thus, a maximum total tax credit of 12% of the increase in employer's salary payments may be available.

2. **Credit increase for SMEs**

   In the case of small or medium enterprises, if the average salary payments is at least 2% over the average salary payments in the previous fiscal year, in addition to the current tax credit of 10% of the increase in employer's salary payments, an extra tax credit of 12% of the lower of either the increase over the base year or the increase over the previous fiscal year will be added. For SMEs, a maximum total tax credit of 22% of the increase in employer's salary payments may be available.

In order to improve the incentive to raise wages, the average wage requirement will be strengthened, while an additional tax credit will be given where the requirements are satisfied. In particular, a large additional credit will be introduced for SMEs, which often have a relatively weak fiscal base, so that the burden from increasing wages can be relieved.

Directors' compensation taxation

As an increasing number of companies have restructured their director compensation under stricter corporate governance rules, the treatment of directors' compensation under Corporate Tax Law will also be revised to take into account such change. Current rules contain strict deductibility limitations on variable director compensation in order to prevent the arbitrary adjustment of taxable income. Deductions for certain restricted stock became permissible under the 2016 reforms, drawing attention from many listed companies. In the 2017 reforms, the range of performance-linked compensation indicators will be expanded and stock compensation, other than from restricted stock, will be deductible, so it is expected that companies will be able to more easily revise their directors' compensation policies.

1. **Performance-linked compensation**

   Operating companies under a holding company can currently not take a tax deduction for performance-linked compensation. The revised rule will expand the scope to companies in a 100% controlled relationship by a non-family company.

   In addition, the types of indicators for deductible director compensation linked to profit will be expanded to include indicators based on the stock market and revenues. Indicators covering multiple years will also be allowed.

   Currently, it is required to limit the compensation up to a given amount. In the case of stock compensation linked to profit, in the future it will also be possible to provide a limit to the number of shares to be issued, not a fixed monetary amont.

2. **Profit-linked severance payment and stock option classification**

   Severance payments will be included in profit-linked compensation, and profit-linked severance payments that do not meet the deduction requirements for profit-linked will not be deductible. Also, compensation provided in the form of a stock option, which had not been covered in the scope of deductible directors' compensation, will be included in either pre-determined compensation or profit-linked compensation.

3. **Revisions to pre-determined compensation**

   Compensation on which a pre-determined number of shares or stock options are issued at a designated time will be added to the scope. This is limited to those issued by the company receiving the service or a company that directly or indirectly owns more than 50% of outstanding shares of that company.

   Also, certain restricted stock will be excluded from pre-determined compensation.

4. **Net pay as regular, fixed compensation**

   Under the revised rules, regular compensation will be considered as fixed compensation if the net pay after withholding social security premiums and taxes will be regular. Thus, the scope of regular, fixed compensation has been broadened to included net salary schemes.

5. **Restricted stock or stock options for non-residents**

   Under the 2017 reform, in the case where restricted stock or stock options are issued to a non-resident, it is deemed that service is rendered when compensation is taxed in Japan as if that person were a resident. As such, restricted stock or stock options for some non-residents were not deductible under the current rules because compensation is not taxed in Japan. Under these reforms, this will be made deductible.

6. **Timing of application**

   Severance pay, restricted stock and stock option related reforms will be effective for resolutions for payment or issues on or after 1 October 2017 and the other reforms will be effective for resolutions for payment or issues on 1 April 2017.

Although it has been some time since the performance-linked compensation rules were introduced, it was difficult to satisfy the requirements for deduction in many cases and so it was not widely used. With the clarifications of performance indicators in the 2016 reforms and the expansion of scope under the 2017 reforms, particularly the allowance of stock-linked compensation, the scope of deductible directors' compensation should broaden. Even for companies that were planning for such compensation to become deductible, it will be important to establish a director compensation structure appropriately, considering the tax impact and costs to ensure an optimization of the company's effective tax rate.

Restriction of preferential measures for SMEs under the Special Taxation Measures Law

Application of the preferential measures for SMEs related to corporate tax and inhabitants tax in the Special Taxation Measures Law (e.g., R&D and wage-based tax credits, and reduced tax rates) will be suspended when average income (over the last three fiscal years) exceeds JPY1.5 billion. This reform is applicable to fiscal years starting on or after 1 April 2019.

Longer extension of filing due dates

The filing due date may be extended by four months (six months from accounting closing; currently two months from accounting closing, or three months after application of the special measure) for corporate tax, inhabitants tax and enterprise tax if an accounting auditor is appointed and if the annual general shareholders' meeting cannot be held within three months of account closing due to the articles of incorporation, subject to the District Tax Director's approval (or Prefectural Governor for enterprise tax).

In the past, the corporate tax filing due date had caused difficulties and was an obstacle to flexibly deciding the date of the annual general shareholders meeting. Companies will now have sufficient time for dialogue with investors. In order to extend the filing due date beyond three months after the account closing date, the voting rights date at the general shareholders meeting and the timing of submission of the annual report should first be looked at. Then, the possibility of holding the general shareholders meeting at least four months after the account closing date should be carefully taken into consideration.

Change to the timing of local corporate tax rate and inhabitants tax rate reforms

On 18 November 2016, the Diet passed several tax reforms to postpone changes of certain corporate tax rates. Effective 1 October 2019, local corporate tax will increase to 10.3% and inhabitants tax will reduce to 7.0%.

These reforms have very little impact on the total effective tax rate, however in the tax effect calculations for companies applying consolidated taxation, it may be necessary to revise the effective rate for national tax and the effective rate for inhabitants tax applied to future fiscal years.

Reorganization taxation rules

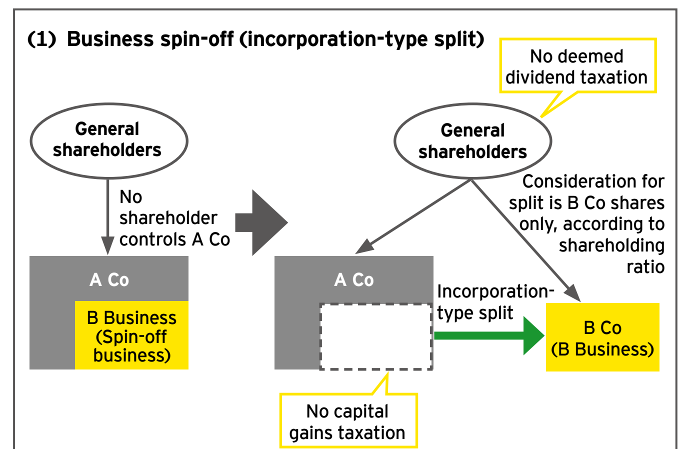
The reorganization taxation rules will be revised as follows.

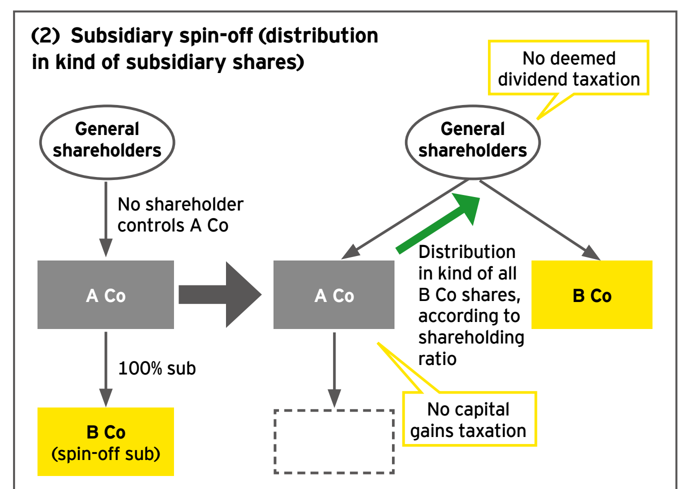
1. Introduction of spin-off taxation rules

Under the current rules, when spinning off a business or subsidiary from your own company and transferring to party with which there is no control relationship, capital gains are incurred by the company spinning off the business/subsidiary and the shareholder is subject to (deemed) dividend taxation.

However, after these reforms, spin-off taxation rules will be introduced making the spin-off of certain businesses and subsidiaries into tax-qualified reorganizations (incorporation-type splits and distributions in kind of wholly-owned subsidiaries). As such, for spin-offs that fulfill certain requirements, companies will not be subject to capital gains taxation on shares of their own subsidiary or business, and general shareholders will not be subject to (deemed) dividend taxation.

Tax qualification requirements will be set for both (1) business spin-offs and (2) subsidiary spin-offs. Specifically, in addition to the employee continuance requirement, business continuance requirement, director participation requirement and important asset and liabilities transfer requirement (splits only), the following requirements will be established.





Tax qualification requirement	(1) Business spin-off	(2) Subsidiary spin-off
Consideration requirement	Only the shares of the split succession company are issued, according to the number of shares held by the shareholders in the split company	Only the shares of the subsidiary are issued, according to the number of shares held by the shareholders in the company which executes the distribution in kind
Non-control relationship continuance requirement	The split company was not controlled by another party before the split and the split succession company will continue to not be controlled by another party after the split	The distribution in kind company was not controlled by another party before the distribution in kind and the subsidiary will continue to not be controlled by another party after the distribution in kind

Note: If a Japanese company distributes only shares of a wholly-owned foreign subsidiary through a distribution in kind to a foreign shareholder, a foreign shareholder will be subject to capital gains taxation related to shares in a Japanese company. This measure is to prevent loss of opportunity of taxation later on when foreign company shares are distributed to a non-resident (refer to International taxation).

New spin-off taxation rules will be introduced to encourage flexible reorganizations by businesses using spin-offs and to help improve international competitiveness from a tax perspective (concentration on core businesses and resolving conglomerate discounts). Under the current regime, reorganizations with non-controlling parties are non-tax qualified, unless the joint business requirement is fulfilled. However, with the introduction of these spin-off taxation rules, a new type of tax-qualified reorganization will be possible.

2. Revisions to market valuation rules of assets in share exchanges and tax consolidation

Effective 1 October 2017, assets with a book value less than JPY 10 million will not be subject to Japan's market valuation rules, with respect to starting or joining a Japan tax consolidated group or non-tax-qualified share exchanges.

In current practice, market valuation of self-created goodwill was conducted as part of market valuation of assets, however this reform should exclude self-created goodwill with no book value from market valuation.

3. Revisions to reorganization taxation rules

(a) Revisions to taxation rules on making subsidiaries wholly-owned through cash consideration (squeeze outs)

In practice there are generally three methods of acquiring shares from minority shareholders by cash consideration: (1) process fractional shares subject to a class-wide call; (2) process fractional shares in share consolidations; or (3) demand a share cash-out. Three methods are dealt with specifically under reorganization taxation rules.

Under these reforms, if the same qualification requirements are fulfilled as those for intra-group share exchanges, the wholly-owned subsidiary will not be subject to market valuation of assets upon starting or joining a tax consolidation group, the same as for squeeze outs by tax-qualified share exchanges. Also, it will be permitted to carry forward net operating losses incurred before the start of or joining the tax consolidation group as specified consolidated losses.

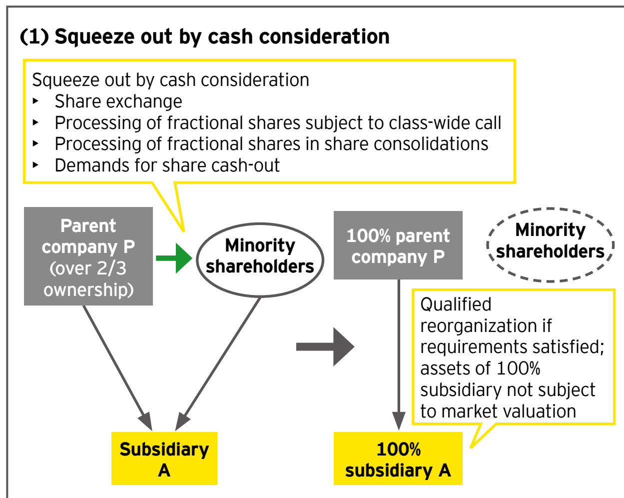
On the other hand, if the qualification requirements are not satisfied, the assets of the wholly-owned subsidiary will be subject to market valuation, the same as for squeeze outs by non-tax-qualified share exchanges.

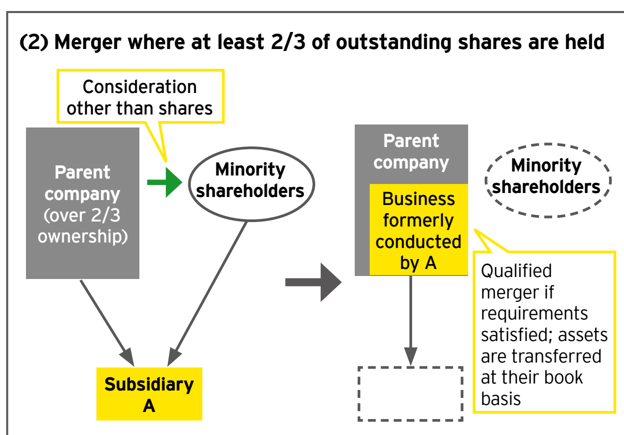
These reforms are applicable to reorganizations carried out on or after 1 October 2017.

(b) Revisions to the qualification requirements for reorganization

Consideration paid to minority shareholders in a share exchange or an absorption-type merger where at least 2/3 of outstanding shares are held will be excluded from determination of the consideration requirement. As such, when paying cash consideration to minority shareholders, it is assumed that these reorganizations are treated as tax-exempt, provided the other qualification requirements are satisfied.

The above changes are applicable to reorganizations carried on or after 1 October 2017.





Under the current rules, when carrying out a share exchange by cash consideration, the market valuation of assets of the wholly-owned subsidiary is necessary as a non-tax-qualified reorganization. As such, there were cases in which, in order to avoid market valuation of assets in a non-tax-qualified reorganization, companies acquired most of the outstanding shares and using either the shares subject to class-wide call, share consolidation or demand for share cash-out method, acquired shares from minority shareholders by paying cash consideration to complete the squeeze out. Since such methods are similar in economic substance to a share exchange by cash consideration, the new measure applies the same reorganization taxation rules as share exchanges. Under the reform in (b) above, the consideration requirement will be excluded from the qualification requirements for share exchanges where at least 2/3 of outstanding shares are owned, so even when processing of fractional shares subject to class-wide call by cash compensation, there will be no great difference for tax purposes compared to share exchanges, provided the other qualification requirements are fulfilled.

4. Revisions to the qualification requirements

(i) In the qualification requirements for intra-group divisive-type splits, the continuous control relationship requirement will be relaxed to require that the relationship between the controlling company and succeeding company is expected to continue (currently, it is the relationship between the controlling company, the split company and the succeeding company).

(ii) In the qualification requirements for mergers, divisive-type splits, share exchanges and share transfers conducted for joint business purposes, the continuous shareholding requirement will be changed so that the shareholders of a corporate group which owns over 50% of outstanding shares of the acquired company is expected to continuously hold all of the shares of the acquiring company from which the issue was received (currently, the number of shares of the acquired company which is owned by the shareholders that is expected to continuously hold all of the shares of the acquiring company, limited to where there are less than 50 shareholders, is at least 80% of outstanding shares).

(iii) The above reforms are applicable to reorganizations carried out on or after 1 October 2017.

5. Depreciation method for goodwill, asset adjustment account and liability adjustment account

The Outline proposes a monthly-based calculation for depreciation/amortization limit in the year of acquisition of goodwill, asset adjustment accounts, and liability adjustment accounts.

Others

1. Support for small and medium-sized enterprises

(a) Extension of the SME investment incentive

The special measure for tax credit or special depreciation when a SME conducts certain capital investments will be extended to 31 March 2019.

(b) Expansion of the top-up measure to the SME investment incentive (lump-sum depreciation for productivity-enhancing equipment)

The incentive will be converted into the SME corporate operation enhancement taxation rules and all tools, devices, equipment and fixtures will be added to the scope of covered assets. Under these rules, SMEs that use certain business assets as part of production equipment (machinery, devices, tools, equipment, supplies, fixtures and software) can benefit from a lump-sum depreciation or take a tax credit of 7% (10% in the case of designated SMEs).

(c) Extension of the special measure for reduced tax rates for SMEs

The special measure which reduces the corporate tax rate of SMEs from 19% to 15% (applicable for annual taxable income under JPY 8 million) will be extended by two years to fiscal years that begin before 31 March 2019.

2. Extension of application of deferred tax reserves for replacement of specified assets

The special measure for taxation in the case of replacement of specified assets (deferred tax reserves) will be revised and extended by three years up to 31 March 2020.

3. New regional investment incentive

In order to encourage investment in new businesses which have a ripple effect on regional economies, investment in certain equipment that is used for that regional-based business and is based on an accredited business plan is eligible for selection of either special depreciation of 40% of the acquisition cost (20% for buildings) or a tax credit of 4% of the acquisition cost (2% in the case of buildings).

4. Revision of filing requirements

Filing requirements for the application of foreign tax credit, R&D tax credit and other credits will be clarified. The specific clarifications will be regarding evidence to be provided by the taxpayer and requirements for initial filing. By making it clear that under certain circumstances the tax credit amount can be changed, situations where the tax office director makes a tax increase correction shall result in the tax credit amount increase to be adjusted accordingly.

In the current system, in the event that increases in corporation tax based on audit are accompanied by an increase in the amount of foreign tax credit, research and development tax credit and other credits, there is a need for the credits to be corrected after a request is made by the taxpayer to do so. This procedure will no longer be necessary after the implementation of the reform.

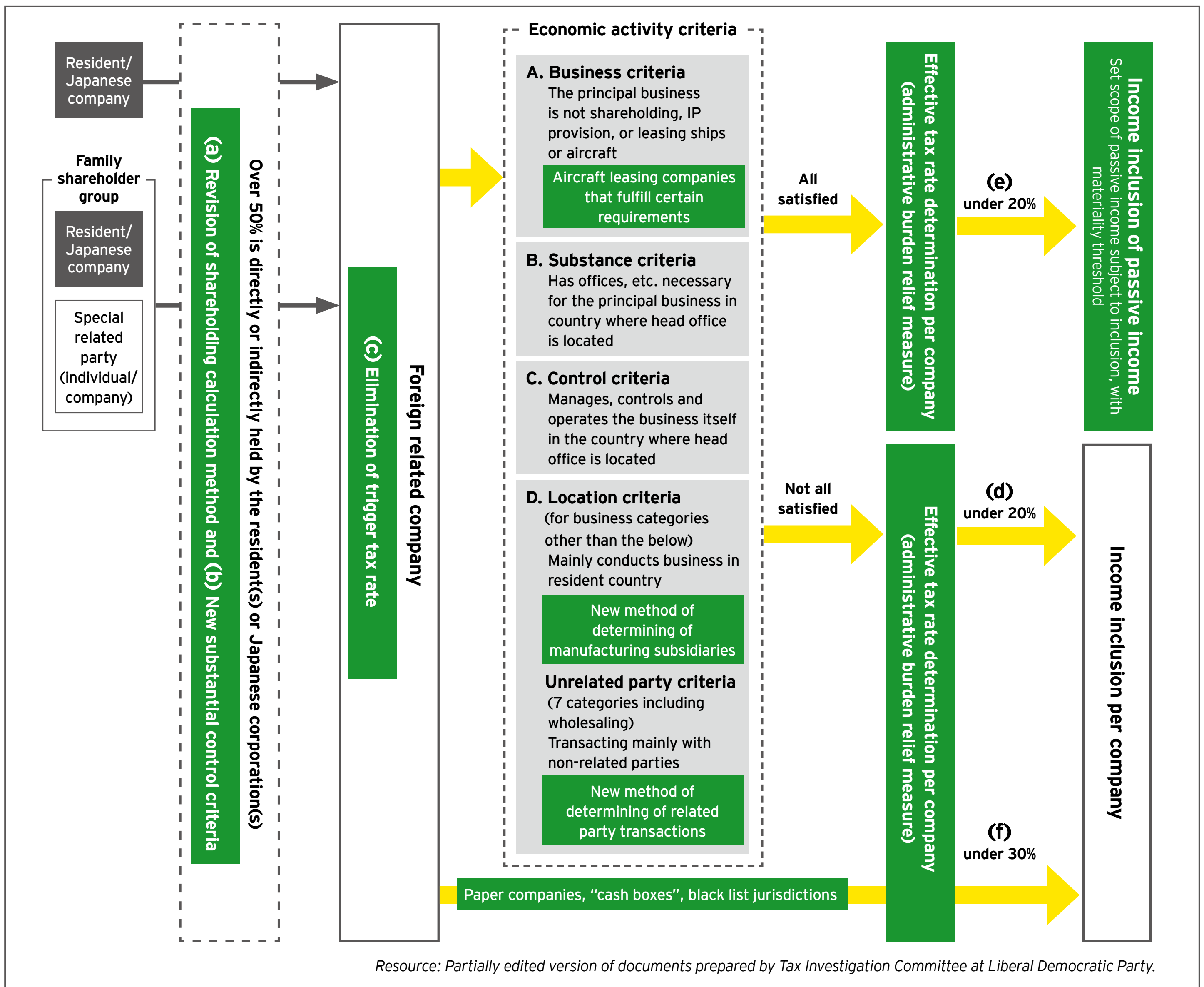
Revision of the Japanese controlled foreign subsidiary (CFC) rules (or so-called "foreign subsidiary income inclusion rules")

The following revisions shall be made to the special provisions of income tax related to specified foreign subsidiaries of domestic entities (so-called "Foreign subsidiary income inclusion taxation"). These are the Japanese equivalent to most countries' CFC rules.

1. Determination of foreign entities subject to income inclusion

a The indirect ownership ratio for the determination of a foreign related company shall be calculated based on the equity ratio of a foreign entity with a chain relationship with a domestic company through the ownership of more than 50% of equity. (Refer to Figure 1(a)).

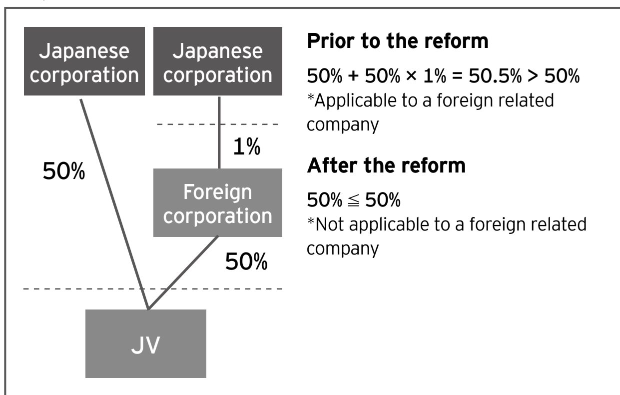
(Figure 1)



Resource: Partially edited version of documents prepared by Tax Investigation Committee at Liberal Democratic Party.

Under current law, the method of calculating the indirect shareholding percentage for the determination of foreign related companies uses a "multiplication formula", therefore it is necessary to consider minority shareholders as well. As such, in cases where a Japanese corporation and a foreign corporation (listed company) each own 50% of a joint venture ("JV") abroad, under the existing rules, if a Japanese corporation held just one listed share of the foreign corporation through a stock market, the JV was deemed to be a foreign related company. However, after this reform, it should no longer be deemed as such. (Refer to Figure 2)

(Figure 2)



b When there is a relationship between a resident or domestic entity and a foreign entity in which the resident or domestic entity is able to make claim to basically all of the foreign entity's residual property, the foreign entity shall be included in the scope of foreign related companies and the resident or domestic entity shall be subject to income inclusion. (Refer to Figure 1(b))

Under current law, the determination of foreign related companies is based solely on legal form based criteria relating to the shareholding ratio (over 50%). As such, in cases where there is no equity relationship but the foreign subsidiary is substantially controlled through a contractual relationship or use of a trust, etc., it was not subject to income inclusion. Under these reforms, substance criteria will be introduced in addition to the legal form criteria so that tax evasion can be prevented.

c The tax burden ratio criteria (so-called "trigger rate") to determine whether foreign related companies are specified foreign subsidiaries shall be abolished. (Refer to Figure 1(c)).

Under current law, the determination of whether a foreign related company is a specified foreign subsidiary subject to income inclusion is based on the tax burden ratio (trigger rate of 20%). However, as a result, income which did not have economic substance was not subject to income inclusion as long as the tax burden ratio was 20% or more. These reforms abolish the simple trigger rate concept and income of paper companies will, as a rule, be subject to income inclusion on an entity-wide basis (although a 30% high-tax rate exemption criteria will be introduced). The 20% rate will be retained from the current system as an exemption threshold so that the administrative burden of companies does not increase unduly. Also, similar to the inclusion of passive income under the current regime, under new partial income inclusion rules, certain new types of passive income will be included with parent company income. (Refer to Figures 1d-f).

2. Income inclusion taxation on an entity-wide basis (Refer to Figure 1-(d))

a Exemption criteria

The following revisions shall be made to the exemption criteria for entity-wide income and amended as economic activity criteria for income inclusion. Foreign related companies that do not satisfy any of the economic activity criteria shall be subject to income inclusion on an entity-wide basis. The new economic activity criteria will maintain the framework of the existing four exemption criteria (business criteria, substance criteria, control criteria and location or unrelated party criteria) with some items revised.

i Business criteria

For foreign related companies engaged mainly in the business of leasing aircraft, those that satisfy the requirement that officers or employees are engaged in all of the activities deemed normally necessary to properly execute the leasing of aircraft in the country where head office is located are considered to satisfy the business criteria.

ii Substance and control criteria
The determination of substance and control criteria of certain foreign related companies operating insurance businesses has been amended specifically for those licensing according to the regulations of the country where head office is located equivalent to the Japanese Insurance Business Act (insurance consignor). In the event that an entity (insurance consignee) which is entrusted for insurance business tasks by the foreign related companies when the foreign related company applies for the licenses, and which meets certain requirements satisfies the substance or control criteria, the foreign related companies are considered to satisfy the substance or control criteria.

iii Location criteria
Changes will be made to the location criteria for foreign related companies engaged mainly in the business of manufacturing, in order to determine whether they can be recognized to be actively involved in manufacturing in the country where the company's head office is located, through material manufacturing activities.

iv Unrelated party criteria
(a) Where it is known in advance that assets, services and other items in a transaction with an unrelated party are to be transferred or provided to a related party, such transactions shall be deemed to be conducted with a related party for the porpose of the unrelated party criteria.
(b) In situations where a foreign related company's primary business is insurance and they are an insurance consignee, transactions between such a foreign related company and the foreign related party's insurance consignor shall be deemed as not being related party transactions for the purpose of the unrelated party criteria.
(c) The unrelated party criteria shall be applied to foreign related companies whose primary business is the leasing of aircraft.

Under current law, income from certain businesses with substance is subject to inclusion due to the tax burden ratio falling under 20%. Under these reforms, revisions will be made to the business criteria and location criteria so that aircraft leasing companies and manufacturers with substance (e.g., manufacturing based on a "processing subcontract" in Hong Kong) are not subject to income inclusion.

v Presumptions when no materials, etc. clarifying economic activity criteria are submitted
In situations where the personnel of the National Tax Agency demands a domestic entity to submit documents clarifying that its foreign related companies satisfy economic activity criteria, if the submission is not completed by the deadline, it shall be presumed that the foreign related companies do not satisfy the economic activity criteria.

b Calculation of amount subject to inclusion
The equity ratio requirement (25% or greater) relating to dividends excluded from the inclusion amount shall be 10% or greater for dividends received from foreign entities whose primary business is the extraction of crude oil, oil gas, combustible natural gas or coal (collectively, fossil fuels) (including businesses closely related to such extracted fossil fuels) and who possess a extraction site in a country that has concluded a tax treaty with Japan.

Under these reforms, a special measure will be introduced with regard to dividends from natural resource companies that extract certain fossil fuels. In addition to the entity-wide income inclusion cases, this measure will also be applied to passive income (dividend) inclusion in 3. Partial income inclusion rules.

c Exemptions
Should the ratio of a foreign related company's tax to its fiscal year income (the tax burden ratio) be 20% or greater, it shall be exempt from the application of income inclusion on an entity-wide basis.

So that the administrative burden of companies is not significantly increased from that under the current law, if the tax burden ratio is 20% or more, the subsidiary will be exempt from income inclusion on an entity-wide basis. However, under the new reforms, it will be additionally necessary to determine whether or not the subsidiary is deemed a paper company, etc.

3. Partial income inclusion rules for certain income (Refer to Figure 1-(e))

a Scope of income subject to partial inclusion
Foreign related companies which fulfill all of the economic activity criteria will be subject to partial income (passive income) inclusion. The scope of income covered will be broader than that included under the current passive income definition.

i Interest
Note: The following types on interest shall be excluded.

(a) Interest received from the lending of money from a foreign related company to its related parties, etc., if the foreign related company satisfies the requirement that its officers or employees are engaged in all of the activities deemed normally required to properly execute the lending of money, etc. in the country where head office is located

(b) Interest received from the lending of money by another foreign related company which is a related party, etc. of a foreign related company satisfying the requirement in section (a) to the foreign related company satisfying the requirement in section (a)

(Figure 3)

Scope of passive income under current rules	Scope of "certain passive income" after reforms		
	In scope		Out of scope
Interest on bonds* Redemption gains on bonds*	i	Interest**	Interest on deposits earned through the normal course of business and certain interest on loans related to group finance
Capital gains on shares if shareholding is under 10%*	ii	Dividends**	Dividends from a shareholding, etc. of 25% or more Note: 10% in the case of dividends from certain natural resource investment companies
-	iii	Consideration for loan of securities**	-
Capital gains on shares if shareholding is under 10%* Capital gains on bonds*	iv	Capital gains on securities**	Gains from a shareholding, etc. of 25% or more
-	v	Gains on derivative transactions**	Gains on derivatives trading for hedging purposes and certain futures trading
-	vi	Foreign exchange gains**	Gains earned in the normal course of business (excluding business performed to earn foreign exchange gains)
-	vii	Other income from financial assets**	Those for hedging purposes
Consideration for lease of ships/aircrafts	viii	Consideration of lease of tangible assets	Consideration for certain leasing businesses use of assets in the headquarters country
Royalties on patents (excluding certain royalties on in-house developed IP)	ix	Royalties from intangible assets	Royalties relating to in-house development
-	x	Capital gains on intangible assets	Certain capital gains on in-house development
-	xi	Abnormal income that has no economic substance based on assets, personnel expenses, depreciation expenses, etc.	-

- *Income which is important due to the nature of the business (excluding designated businesses such as shareholding) will not be subject to inclusion
- **Financial organizations that fulfill certain requirements are not subject to income inclusion

Resource: Partially edited version of documents prepared by Tax Investigation Committee at Liberal Democratic Party.

(c) Interest received from the lending of money, where a foreign related company is in the moneylending business in compliance with the laws of the country where head office is located and satisfies the requirement of its officers or employees being engaged in all of the activities deemed normally required to properly execute the lending of money in the country where its head office is located

(d) Savings interest received from the normal operations related to a foreign related company's business activities

ii Dividends
The following dividends shall be excluded. Dividends received from an entity satisfying the requirement of an equity ratio of 25% or greater (excluding dividends that are deductible expenses at the entity making the payment). The equity ratio requirement shall be 10% or greater for dividends received from a foreign entity whose primary business is the extraction of fossil fuels (including businesses closely related to such extracted fossil fuels) and who possess an extraction site in a country that Japan has concluded a tax treaty with.

iii Consideration for securities lending

iv Capital gains or loss on securities
Note: Capital gains or loss on shares, etc. of entities satisfying the requirement of shareholding ratio of 25% or greater are excluded.

v Gains or loss from derivative trading
Note: Gains or loss from the following derivative transactions are excluded.

(a) Gains or loss related to derivative transactions that are clearly conducted for the purpose of hedging, etc.

(b) Gains or loss related to commodity futures trading generated from business activities, where a foreign related company is in the commodity futures trading business, in compliance with the laws of the country where head office is located and satisfies the requirement of its officers or employees being engaged in all of the activities deemed normally necessary to properly execute the business activities in the country where head its office is located

vi Gains or losses from foreign exchange
Note: Profit or loss from foreign exchange generated from normal operations related to a foreign related company's business activities (excluding business conducted for the purpose of gaining from differences due to fluctuations in the foreign exchange market) are excluded.

vii Income similar to income generated from assets which generate income listed from sections i to vi that generate income
Note: Profits or losses related to transactions clearly for the purpose of hedging are excluded.

viii Consideration for the lease of tangible fixed assets
Note: The following considerations are excluded.

(a) Consideration for the lease of tangible fixed assets, etc. primarily made available for use in the country where head office is located

(b) Consideration for the lease of tangible fixed assets where the foreign related company satisfies the requirement that its officers or employees are engaged in all of the business activities deemed normally necessary to properly execute the lease of tangible fixed assets in the country where its head office is located

ix Royalties from intangible assets, etc.
Note: Royalties related to intangible assets, etc. developed in-house, or obtained by paying a reasonable consideration or made available through licensing for business use are excluded.

The scope of royalties from intangible assets will be expanded compared to the current royalties from industrial property (patents, etc.).

x Capital gains or loss from intangible assets, etc.
Note: Capital gains or losses related to intangible assets, etc. developed in-house, or obtained by paying a reasonable consideration or made available through licensing for business use are excluded.

xi Income remaining in a foreign related company's profit for the fiscal year after subtracting amounts for income types listed in sections i to x and income deductions

Income = Profits earned in the fiscal year - [(i) interest (ii) dividends, etc. (iii) consideration for securities lending (iv) capital gains or loss on securities (v) gains or loss from derivative trading (vi) gains or loss from foreign exchange (vii) income generated by assets in sections i to vi (viii) consideration for the lease of tangible fixed assets (ix) royalties from intangible assets, etc. and (x) capital gains or loss from intangible assets, etc.] - income deduction (Note)

Note: The above income deduction is calculated by multiplying the total of the foreign related company's total assets, accumulated depreciation and personnel expenses by 50%.

Income deduction = (foreign related company's total asset + accumulated depreciation + personnel expenses) x 50%

b Calculation of partial income inclusion amount
The amount subject to partial income inclusion shall be the total of the following amounts, for the foreign related companies, in the fiscal year.

i Total of above sections a.i to iii, viii, ix and xi

ii Total of above sections a.iv to vii and x (nil if this amount falls below zero)

Details of b(i)	Details of b(ii)
a(i) interest + a(ii) dividends + a(iii) consideration for securities lending + a(viii) consideration for the lease of tangible assets + a(ix) royalties from intangible assets, etc. + a(xi) Income remaining from a foreign related company's profit for the fiscal year after substracting the income amounts for income types listed in sections i to x and income deductions	a(iv) capital gains or loss on securities + a(v) gains or loss from derivative trading + a(vi) gains or loss on foreign exchange + a(vii) income generated by assets listed from sections i to vi + a(x) capital gains or loss from intangible assets, etc.

c Carry forward of losses relating to the partial income inclusion amount
In the event that the amount of above section b.ii is negative in any of the fiscal years in the seven years before the starting date of the current fiscal year, that loss may be offset in the calculation of the amount in above section b.ii for the current fiscal year.

The scope of passive income was previously very limited, so it was very rare that foreign subsidiaries which fulfilled the exemption criteria were subject to inclusion of passive income. The type and scope of passive income subject to inclusion will be expanded under the reforms, so it is expected that administrative tasks to determine the applicability of income inclusion and the existence of passive income should increase.

d Partial income inclusion related to financial subsidiaries, etc.

i Scope of income subject to partial income inclusion
The income subject to partial income inclusion for a foreign related company engaged in banking, financial instruments business or insurance, in compliance with the laws of the country where its head office is located and satisfying the requirement of its officers or employees being engaged in all of the activities deemed normally required to precisely execute the business activities in the head office location (a financial subsidiary) is, regardless of above section a, as follows.

(a) Income related to abnormal level of capital of financial subsidiary

(b) Income listed as above section a.viii (consideration for lease of tangible assets)

(c) Income listed as above section a.ix (royalties from intangible assets)

(d) Income listed as above section a.x (capital gains or losses from intangible assets)

(e) Income listed as above section a.xi (income remaining from a foreign related company's profit for the fiscal year after substracting the income amounts for income types listed in sections i to x and income deductions)

ii Calculation of amount subject to partial income inclusion

The amount subject to partial income inclusion is, regardless of above section b, the greater of the following for the fiscal year of the financial subsidiary.

(a) Income amount listed in above section i.(a) Income related to abnormal level of capital of financial subsidiary)

(b) Total of income amounts listed in above sections i.(b), (c) and (e), and i.(d) (nil if this amount falls below zero)

i(b) Consideration for lease of tangible assets
+
i(c) Royalties from intangible assets, etc.
+
i(e) Income listed as above section a.xi (income remaining from a foreign related company's profit for the fiscal year after substracting the income amounts for income types listed in sections i to x and income deductions)
+
i(d) Capital gains on intangible assets, etc.

iii Carry forward of losses relating to the partial income inclusion amount

In the event that the amount of above section i(d) is negative in any of the fiscal years in the seven years before the starting date of the current fiscal year, the loss may be offset in the calculation of the amount of above section i(d) income for the current fiscal year.

Certain types of passive income earned by financial subsidiaries (principal business income) that fulfill certain requirements will not be subject to income inclusion.

e Exemptions

i Should the tax burden ratio of a foreign related company's fiscal year be 20% or greater, the foreign related company shall be exempt from the application of partial income inclusion.

ii The materiality threshold related to partial income inclusion shall be increased to JPY20 million or less (current: JPY10 million or less).

iii With regards to requirements for the materiality threshold of partial income inclusion, the requirements to attach documents to final tax returns stating that the requirement is satisfied and to retain documents clarifying the application shall be abolished.

Consideration has been shown for companies by raising the materiality threshold from JPY10 million to JPY20 million and reducing the administrative burden by not requiring attachment of supporting documents to the tax return, etc.

4. Income inclusion on an entity-wide basis for certain foreign related companies (Refer to Figure 1-(f))

a Foreign related companies subject to income inclusion

Foreign related companies listed below shall be subject to income inclusion on an entity-wide basis.

i Foreign related companies that do not satisfy any of the following requirements:

(a) Possesses a fixed facility deemed necessary to conduct its primary business, such as an office (for certain foreign related companies engaged in insurance, includes situations equivalent to possessing such facility)

(b) Manages, controls and operates the business by themselves in the country where its head office is located (for certain foreign related companies engaged in insurance, includes situations equivalent to conducting such activities by themselves).

Note: In situations where the personnel of the National Tax Agency demands that a domestic entity submit documents clarifying that its foreign related companies satisfy the above requirements (a) or (b), if the submission is not completed by the deadline, it is presumed that the foreign related companies do not satisfy the requirements.

ii Foreign related companies whose ratio of the total amount of income listed in above sections 3.a.i-x to the amount of total assets (for financial subsidiaries, the ratio of the greater of either the income listed above in section 3.d.i.(a) or total of above sections 3.d.i.(b)-(d) to the amount of total assets) is over 30% (limited to foreign related companies with the ratio of the total of securities, loans and intangible fixed assets, etc. to the amount of total assets of over 50%)

30% < [3a(i) interest + (ii) dividends, etc. + (iii) consideration for securities lending + (iv) capital gains or loss on securities + (v) gains or loss from derivative trading + (vi) gains or loss from foreign exchange + (vii) income generated by assets in sections i to vi + (viii) consideration for the lease of tangible assets + (ix) royalties from intangible assets, etc. and + (x) capital gains or loss from intangible assets, etc.] / Total assets

Financial subsidiaries

$$30\% < \frac{\text{the greater of (a) or (b)}}{\text{Total assets}}$$

(a) 3d(i)(a) Income related to abnormal level of capital of financial subsidiary

(b) 3d(i)(b) Consideration for leasing of tangible assets + (c) Royalties on intangible assets + (d) Capital gains on intangible assets

iii Foreign related companies with headquarters, etc. in countries or regions designated by the Minister of Finance to be countries or regions that are uncooperative in the exchange of tax information (blacklist countries)

b Calculation of included income

The calculation of included income shall be the same as the calculation of the inclusion amount in above section 2 Income inclusion on an entity-wide basis.

c Exemptions

Should the tax burden ratio of a foreign related company listed in above sections a.i-iii be 30% or greater for the fiscal year, it shall be exempt from the application of income inclusion on an entity-wide basis.

These reforms abolish the simple trigger rate concept and paper companies (a.i. above), de facto cash box companies (a.ii above) and companies in blacklist countries (a.iii above) will, as a rule, be subject to income inclusion on an entity-wide basis, even if the tax burden ratio is 20% or over. However, in order to reduce the administrative burden of companies, a high-tax rate criteria of 30% will be introduced with regards to Foreign related companies listed in sections a.i-iii. Firstly, it is necessary to check whether your foreign related companies would be deemed as one of these types of company.

Caution is required with regard to de facto cash box companies, as irrespective of the substance of the business, if the form requirement is satisfied, they will be subject to entity-wide income inclusion.

5. Other

a Attachment of financial statements, etc. related to foreign related companies

Domestic entities must attach financial statements, etc. related to the following foreign related companies to their final tax returns.

i. Foreign related companies with tax burden ratio of under 20%

ii. Foreign related companies with tax burden ratio of under 30% (limited to foreign related companies listed in sections 4.a.i-iii)

b Adjustment for double taxation

iii. If income inclusion from above sections 2 to 4 is applied to a domestic entity, out of the total amount of Japanese income tax, special income tax for reconstruction and corporate tax, the amount equivalent to the portion subject to inclusion according to income inclusion from above sections 2 to 4 shall be deducted from the corporate tax amount of the domestic entity.

iv. Out of the amount of dividends, etc. that an investment entity, etc. receives from its foreign related companies, the amount for that foreign related company to achieve the total amount to be subject to inclusion in the fiscal year including the day the dividends, etc. from the investment entity, etc. is received and each of the fiscal years within 10 years of the day that fiscal year began is not included in the taxable income amount for the purpose of calculating the investment entity's income amount.

c Implementation of related measures

Appropriate measures resulting from the above revisions will be implemented in related systems such as foreign subsidiary income inclusion related to residents and special taxation measures for income related to specified foreign entities related to domestic entities that are specially-related shareholders.

6. **Applicable date**

   The above revisions shall be applied from fiscal years of foreign related companies beginning on or after 1 April 2018.

   For foreign related companies with a December year-end, the first year of application will be the fiscal year ending December 2019.

Measures relating to the revisions to the reorganization taxation rules for distributions in kind of wholly-owned subsidiary shares

(Refer to Corporate taxation – Reorganization taxation rules 1. Introduction of spin-off taxation rules)

The following measures will be established for cases where non-residents or foreign shareholders receive subsidiary shares by a distribution in kind in which all of the shares of a wholly-owned subsidiary are distributed so that it is treated the same as a divisive-type split.

(1) Requirements regarding capital gains taxation on transfers of shares which are similar to business transfers (in which shares in subsidiary or other assets are issued) will be provided.

(2) If only shares in the foreign subsidiary are distributed according to the number of shares held by the non-residents or foreign shareholders of the company which executes the distribution in kind in Japan, tax will be assessed on the capital gains (only on Japan source income subject to Japan tax) on old shares (shares of the company which executes the distribution in kind in Japan).

Updates to domestic law in line with reforms to tax treaty mutual agreement procedures

Domestic law will be revised as follows in line with the reforms to tax treaty mutual agreement procedures

(1) In the mutual agreement application procedures, a resident of a tax treaty counterpart country will be able to apply to the National Tax Agency Commissioner for mutual agreement procedures.

(2) In the arbitration procedures, a party that has applied for mutual agreement procedures to the competent authority of a tax treaty counterparty country will be able to make a request for arbitration to the National Tax Agency Commissioner.

(3) The necessary measures will be established for tax payment deferral relating to the special measure for taxation on transactions with foreign related parties.

Individual income taxation and property taxation

Spouse deduction and special spouse deduction

The revised upper limit of spousal income for taking the full spouse deduction or the full special spouse deduction will be increased to a maximum spouse salary income of JPY1.5 million. The maximum spouse deduction and the special spouse deduction amount will be staggered according to the total income of the individual or their spouse. If the resident individual's total income exceeds JPY10 million (i.e., salary income of JPY12.2 million) or if the spouse's income exceeds JPY1.23 million (JPY2.01 salary income), no spouse deduction can be taken.

(1) Spouse deduction

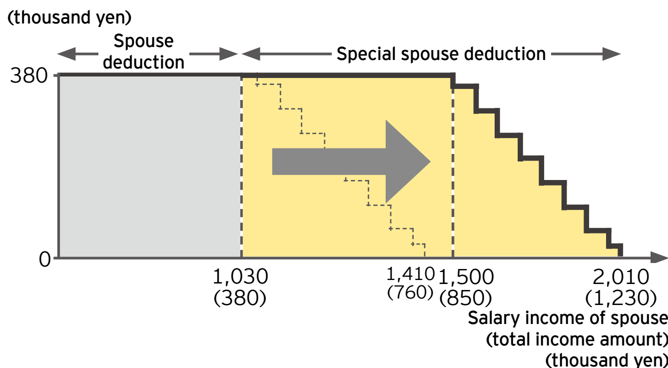
The spouse deduction amounts will be as follows.

Resident's total income	Deduction amount	
	Spouse	Elderly spouse
JPY9m or less	380,000	480,000
JPY9.5 or less, over JPY9m	260,000	320,000
JPY10m or less, over JPY9.5m	130,000	160,000

(2) Special spouse deduction

The special spouse deduction can be taken where the spouse's total income is JPY1.23 million or less but over JPY380,000 (currently under JPY760,000 but over JPY380,000).

Deduction received by taxpayer (taxpayer's total income is JPY9m or less)



Note: This reform will be applied to income tax from 2018 onwards.

It is hoped that this will transform attitudes to work arrangements, resolve the lack of human resources and contribute to the growth of the Japanese economy. This reform represents the first step of an overhaul of individual income tax. In anticipation of future reforms of the tax regime, social security regime and companies' spouse allowances, it may be necessary to rethink the way household members work.

New type of NISA

The tax exemption measure for dividends and capital gains income arising from small investments (Nippon individual savings account) took effect from January 2014. Under the 2017 reforms, a second type of NISA will be introduced to support the stable wealth accumulation of households. Dividends and capital gains on a publicly-offered stock investment trust which relates to a tax-exempt account opened using a certain cumulative investment agreements will be tax exempt for 20 years up to JPY400,000 in annual investment. Savers will choose between the current NISA and this new NISA.

With the introduction of a new type of NISA, those who would like to build up assets can now choose a preferential measure that suits their investment style best. This is expected to encourage further steady asset building by households.

Inheritance and gift tax on foreign property

The following revisions will be made in relation to inheritance between foreigners temporarily residing in Japan and to tackle avoidance of inheritance and gift tax on foreign property by Japanese nationals.

(1) The requirement for exemption of inheritance tax on foreign property for an heir who has no domicile in Japan but who has Japanese nationality will be lengthened from 5 years to 10 years for the period in which both the deceased and the heir have not had an domicile in Japan.

(2) Currently, in the case of inheritance from a non-Japan domiciled deceased to a non-Japan domciled and non-Japan national heir, only property located in Japan is taxable. However, in order to prevent tax avoidance, if an heir who does not have a domicile in Japan and is not a Japanese national acquires foreign property through inheritance or bequest from a deceased (excluding a person who is not Japanese national and who live temporarily in Japan*) that does not have a domicile in Japan but had a domicile in Japan anytime in the 10 years before inheritance, inheritance tax will be assessed on foreign property.

Taxable assets

<table>
<tr><td colspan="2" rowspan="3">Donee/ heir
Donor/ deceased</td><td rowspan="3">Domicile in Japan</td><td colspan="3">No domicile in Japan</td></tr>
<tr><td colspan="2">Japan national</td><td rowspan="2">Non-Japan national</td></tr>
<tr><td>Domicile in last 10 years</td><td>No domicile in last 10 years</td></tr>
<tr><td colspan="2">Domicile in Japan</td><td colspan="4" rowspan="2">Japan + foreign property</td></tr>
<tr><td rowspan="2">No domicile in Japan</td><td>Domicile in last 10 years</td></tr>
<tr><td>No domicile in last 10 years</td><td colspan="2"></td><td colspan="2">Only Japan property</td></tr>
</table>

(3) Under the existing law, foreigners who live temporarily in Japan are subject to inheritance tax on foreign property (e.g., their house in their home country), however the scope of inheritance taxation relating to inheritance or bequest of certain deceased and heirs who have Status of Residence in Table 1 of the Immigration Control and Refugee Recognition Act and live temporarily in Japan* will be limited to taxation on property in Japan.

** A person is considered temporarily staying in Japan if the total period of having a domicile in Japan in aggregate is less than 10 years within the past 15 years before the inheritance or gift.*

Note: Gift tax rules will also be revised in line with the above.

Note: The above reforms will be applied to inheritance tax and gift tax on property acquired through inheritance, bequest or gift on or after 1 April 2017.

The problem of families avoiding tax on foreign property by both the parent and children relocating outside Japan for five years has been known for a long time. This reform aims to deal with this issue. On the other hand, as property in the home country will not be taxable on inheritance between foreign nationals, this is expected to encourage immigration of highly-skilled foreigners to Japan.

Revisions to business succession taxation

The following revisions and other changes will be made to encourage the use of the deferral system for inheritance tax and gift tax payment in the case of succession of unlisted companies.

(1) When those affected by natural disaster use this system, depending on the kind of damage, there will be a relaxation/exemption of the employment retention requirement for authorized succeeding companies, exemption from deferred tax during the business succession period, and relaxation of the advance director inauguration requirement.

(2) In the calculation of the number of regular employees in the employment retention requirement relating to annulation of tax payment deferral, fractions of one will be rounded down (currently, rounded up).

(3) Gifts relating to settlement taxation at time of inheritance will be covered by the gift tax payment deferral system.

(4) The requirement to be a small or medium business and the requirement that the shares are unlisted shares – which are authorized succeeding company requirements for the inheritance tax payment deferral system – will be abolished.

Note: The above reforms will be applied to inheritance tax and gift tax on property acquired through inheritance, bequest or gift on or after 1 January 2017.

With the ageing of small and medium business owners, it is important to encourage timely and well-planned business succession. As such, following on from the 2013 tax reforms, there will be further relaxation of requirements, improving the practical usage of this system.

Inheritance tax property valuation

Under the market valuation principle in Inheritance Tax Law, revisions will bring the valuation in line with actual practice.

(1) With respect to the valuation of unlisted shares, revisions will be made to the weight of the basic amount and the reference to consolidated financial results of listed companies in the similar business comparison method, as well as the classification of size of evaluated companies.

(2) The valuation method for large areas of land will be revised. Instead of a reduction proportionate to area, in the future a method will be applied that reflects the unique characteristics of sites such as the geography and the area. The applicable requirements will also be clarified.

(3) Warranty bonds will be included in the criteria for determining whether a company is a deemed a "special shareholding-type company".

Tax administration and others

Revision of procedures for national tax rules violation investigations

In order to accompany changes to economic activities there will be a revision to procedures related to tax inspections and audits, including the establishment of procedures to seize electronic records.

1. In place of seizing personal computers, etc., it will become possible to duplicate, transfer or print data onto CD-R or other media and seize such media.
2. Certain electronic records stored in external servers, etc., can be duplicated onto personal computers subject to seizure.
3. It will be possible to have server administrators, etc., record or print electronic records onto CD-R or other media and seize such media.
4. Internet service providers can be required to maintain electronic data of communication records for periods, as a general rule, not to exceed 30 days.

Revision of liquor tax rate structure

Liquor tax rates for beer-like beverages will be unified in October 2026. In order to avoid a sudden fluctuation of consumer burden, the revision will be implemented in three stages – the first in October 2020 and the second in October 2023.

Other measures such as expansions to the definition of "beer" and the scope of beer-like beverages will be implemented as well.

Revision and extension of eco-car tax reductions

The eco-car tax reduction for vehicle excise tax is currently available for vehicles acquired on or before 31 March 2017, and for vehicle weight tax for new vehicles registered on or before 30 April 2017. For both taxes the eco-car tax reduction period will be extended by two years, with stricter fuel consumption conditions implemented in stages.

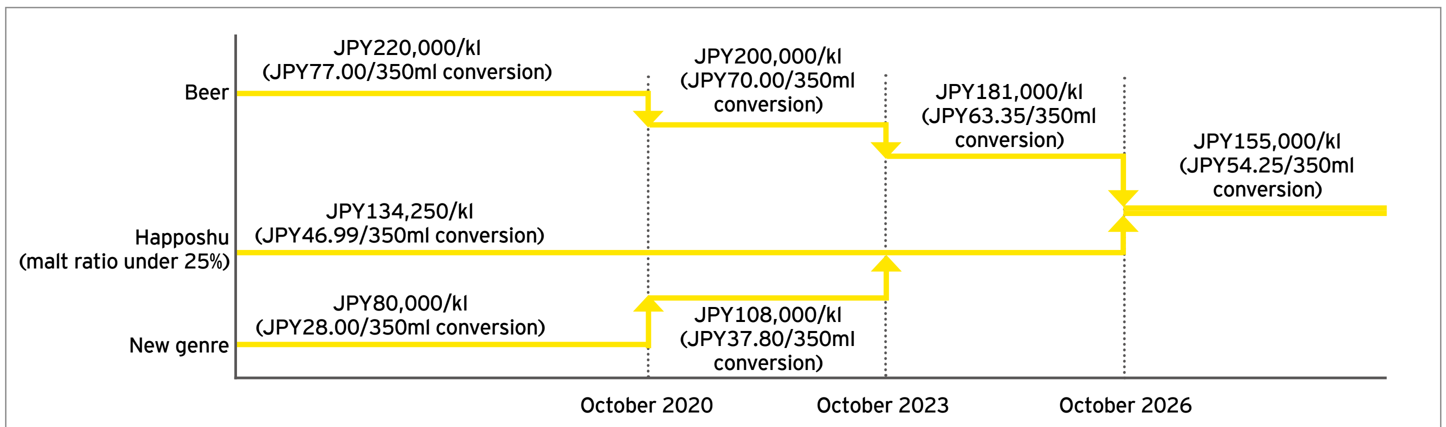
Extension of reductions to real estate registration and license tax

The 2.0% registration and license tax for the transfer of ownership resulting from the sale of land is currently reduced to 1.5% until 31 March 2017. The application of this tax reduction will be extended by two years.

Revision of fixed asset tax, etc. related to high-rise apartments, etc.

The evaluation method of fixed asset tax related to high-rise apartments will be revised. Fixed asset tax related to high-rise apartment units is calculated by dividing the fixed asset tax amount of the entire building proportionally for each unit owner according to the occupied floor area of each unit. However, for high-rise residential buildings exceeding 60 meters in height, the calculation of the occupied floor area of each unit will be revised according to a rate reflecting recent transaction price trends.

(Figure 1 - Revision of rate structure (beer-like beverages))



Specifically, the evaluation of occupied floor area will increase by approximately 0.26% for each higher floor of a building. This reform will be applied to high-rise apartments that will be subject to taxation for the first time from 2018 (excluding apartments that include residences for which the sales agreement was concluded before 1 April 2017).

The market prices of high-rise apartment units are often greater on higher floors than lower floors, but under the current system the fixed asset tax evaluation amount is the same for a unit with the same occupied floor space, regardless of the level. This has led to instances where higher level units are purchased as inheritance tax planning measures, taking advantage of the fact that inheritance tax is calculated on a fixed asset tax basis. This tax reform is expected to counter such inheritance tax strategies.

Consumption tax on virtual currencies

The trading of virtual currencies prescribed in the Payment Services Act conducted domestically on or after 1 July 2017 will not be subject to consumption tax.

Repurchase transactions

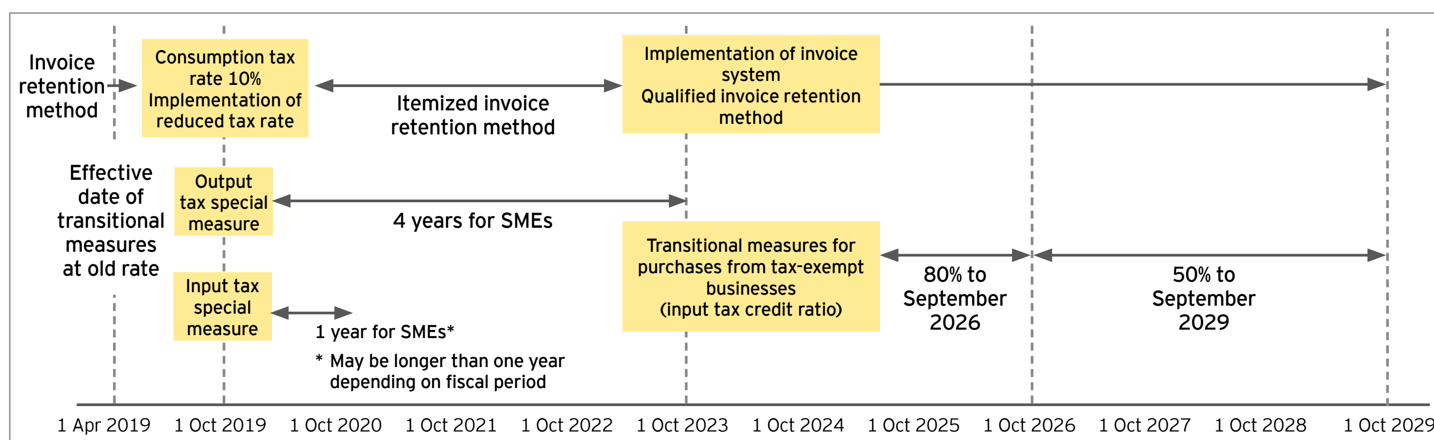
The scope of income excluded from taxation will include interest and rent, etc., payments received by foreign entities excluding foreign financial institutions, etc., in bond repurchase agreements satisfying requirements including transactions of book-entry JGBs with specified financial institutions, etc., with a transaction period of three months or less, for periods beginning between 1 April 2017 and 31 March 2019.

Measures related to the postponement of consumption tax rate increase

A tax reform proposal for the consumption tax rate increase was passed and established on 18 November 2016, independent of the 2017 tax reform outline. This consumption tax rate increase to 10% and the implementation of a reduced tax rate system have been postponed by two and a half years, to 1 October 2019. The special calculation for simplified calculation of output and input tax will be abolished for companies which are not SMEs.

The schedule of transition to the multiple tax rate scheme is as set out below (Figure 2).

(Figure 2)



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Japan Tax SCORE 20161222

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