Japan tax bulletin

Newsletter on important tax and business developments in Japan

February 2015

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The cabinet approved the outline of 2015 Tax Reform Proposal on January 14, 2015. Major reform proposals are discussed in this Issue.

Corporate income tax

Corporate Income Tax Rate
The corporate income tax rate will be reduced from 25.5% to 23.9% for fiscal years beginning after March 31, 2015. The tax rate applied to income up to JPY 8 million for Small and Medium-Sized Enterprises (SMEs) will be reduced from 19% to 15%. The effective corporate income tax rate including local income taxes will be reduced from 34.62% to 32.11%.

Availability of tax losses
Currently, the offset of carried forward tax losses is capped at 80% of current year taxable income. This cap will reduce to 65% for years beginning between April 1, 2015 and March 31, 2017, and 50% for years beginning after March 31, 2017. The cap does not apply to SMEs. An. SME is a corporation whose stated capital is JPY 100 million or less and which is not 100% owned by a large corporation or large corporations in a 100% owned group.

Losses can currently be carried forward for 9 years. This will be extended to 10 years. In connection with this the following time limits have also been increased from 9 to 10 years:

- the retention period for books and records where tax losses are utilized;
- the statutory limitation for the tax authorities to correct a tax return; and
- the statutory limitation for a taxpayer to request the tax authorities to correct a tax return.

Dividends received from a domestic corporation
Currently dividends received from a domestic corporation are 100% exempt where the recipient owns 25% or more of the paying company's share capital and 50% exempt where the ownership is less than 25%. For fiscal years beginning after March 31, 2015, dividends received from a domestic corporation are 100% exempt where the recipient owns more than 1/3 of the share capital, 50% exempt where the ownership is less than 1/3 but more than 20%, and 20% exempt where the ownership is 20% or less.

R&D tax credit
The cap on the creditable amount is increased from 20% of a company's corporation tax liability to 30%.

Salary increase tax credit
Currently when an employer increases the salary amount it pays by 5% compared to the previous year, it can take a tax credit equal to 10% of the increase up to a maximum of 10% (20% for SMEs) of its corporation tax liability. For fiscal years beginning after Match 31, 2016, the required increase in salary is reduced to 4% (3% for SMEs).

Business scale taxation

A corporation with stated capital of more than JPY 100M are subject to business scale taxation which comprises of an added value levy, a paid in capital levy and a profit-based levy. The composition of the three levies changes as follows:

		Current	Fiscal years beginning between April 1,2015 and March 31,2016	Fiscal years beginning after March 31, 2016
Added value levy		0.48%	0.72%	0.96%
Paid in Capital levy		0.2%	0.3%	0.4%.
Profit-based levy	JPY 4M or less	3.8% (2.2%)	3.1% (1.6%)	2.5% (0.9%)
	4M～8M	5.5% (3.2%)	4.6% (2.2%)	3.7% (1.4%)
	8M or more	7.2% (4.3%)	6.0% (3.1%)	4.8% (1.9%)

( ) adjusted rates due to temporary implementation special local corporate tax

The special local corporate tax rates changes as follows:

	Current	Fiscal years beginning between April 1,2015 and March 31,2016	Fiscal years beginning after March 31, 2016
The tax base is the profit-based levy	67.4%	93.5%	152.6%

International Tax

Exemption of dividends from foreign subsidiaries

95% of dividends from a 25% or more owned foreign subsidiary are exempt from income tax. Where all or part of the dividends are tax deductible for the foreign subsidiary, the amount deducted does not qualify for exemption.

CFC rules

Currently the CFC rules are triggered when a foreign subsidiary's effective tax rate is 20% or less. This will change to less than 20%.

Corporate reorganization

One of the conditions for tax-free qualified corporate reorganizations is that the consideration for assets/liabilities transferred pursuant to the corporate reorganization is interests in the recipient company or 100% parent of the recipient company. The 100% parent can be a foreign corporation. However, where the effective tax rate of the 100% foreign parent is 20% or less (changed to less than 20%), interests in the 100% foreign parent will not qualify as consideration in a tax-free corporate reorganization.

Under the proposal, where a 100% foreign parent is newly set up, the 20% threshold will be determined by the statutory tax rate instead of its effective tax rate.

Individual income tax

Exit tax

Where a resident in Japan exits Japan, securities, interests in silent partnership contracts (Tokumei Kumiai), unsettled derivative contracts etc. are deemed to be transferred or settled and subject to individual income tax. "Exit" means that a resident relinquishes domicile or residence in Japan.

Where a tax agent is appointed before the due date for the income tax return in the year of exit, the gains or losses on deemed transfers or settlements are calculated on the exit date. Where a tax agent is not appointed, gains or losses are calculated on the day 3 months prior to the planned exit day.

Individual are subject to the exit tax where (1) securities owned or net gains on deemed settlement of derivatives are JPY 100 million or more and (2) the individual has had domicile or residence in Japan for 5 year or more in 10 years prior to the exit date.

Where an individual who was subject to exit tax, returns to Japan within 5 years from the exit date, the individual can ask the tax authorities within 4 months from the day they return to cancel the exit tax imposed.

The payment of exit tax may be postponed until the day after 5 years from the exit date if a postponement request is made in the income tax return for the exit year, a tax agent is appointed and collateral is provided. Where the postponement of payment is accepted, a report on the securities or unsettled derivatives as at December 31 of every year must be submitted by March 15 of the following year.

Where the securities or unsettled derivatives subject to postponement are transferred or settled and foreign income taxes are imposed, the foreign income taxes are deemed to have been paid in the year of exit and are creditable against the exit tax. In order to benefit from this a tax return correction request must be filed within 4 months from the day when the foreign income taxes are imposed.

Non-resident dependents

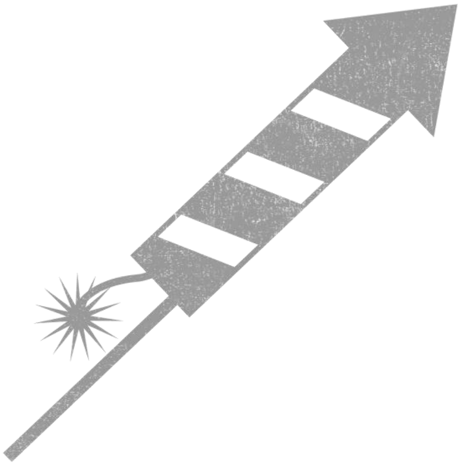
When a taxpayer claims a dependant deduction (spouse deduction, special spousal deduction or disabled dependent deduction) for a non-resident dependent, documents evidencing the family relationship and remittance of money must be attached to the tax return.

Consumption tax

Tax rate
The tax rate will be increased from 8% to 10% from April 1, 2017.

Consumption tax on cross border E-commerce
Books, music, advertising etc. distributed through telecommunication lines (collectively telecommunicated services) will be deemed to be provided in the location of the purchaser. Previously the supply was deemed to be in the location of the supplier. Consumption tax on B to B telecommunicated services will be collected through a reverse charge mechanism. Foreign service providers who provide telecommunicated services to businesses in Japan will need to make it clear that purchasers of the services are liable for paying taxes through the reverse charge mechanism. For the time being, where the taxable sales ratio of purchasers of telecommunicated services from foreign service providers is 95% or more, the purchase of the telecommunicated services are ignored for administrative burden. This change will be applicable from October 1, 2015.

Consumption tax on foreign athletes or entertainers
Consumption tax on services performed by foreign athletes or entertainers in Japan will be collected through reverse charge mechanism. This change will be applicable from April 1, 2016.



Contact us for any enquiry on our services;

Yoichi Ishizuka
Managing Partner, Tax Services
Tel: 03-5770-8870 email: yoichi.ishizuka@jp.gt.com

Hideharu Tanaka
Partner, International Tax Services
Tel: 03-5770-8871 email: hideharu.tanaka@jp.gt.com

Kumiko Miyajima
Partner, International Tax Services
Tel: 03-5770-8914 email: kumiko.miyajima@jp.gt.com

Yuka Iizumi
Manager, International Tax Services
Tel: 03-5770-8892 email: yuka.iizumi@jp.gt.com

Tosh Kamii
Manager, Corporate Services
Tel: 03-5770-8935 email: toshiya.kamii@jp.gt.com

Takashi Kurematsu
Manager, International Tax Services
Tel: 03-5770-8938 email: takashi.kurematsu@jp.gt.com

Michiko Shinohara
Manager, International Tax Services
Tel:03-5770-8896 email: michiko.shinohara@jp.gt.com

Adrian Castelino-Prabhu
Assistant Manager, International Tax Services
Tel: 03-5770-8882 email: adrian.castelino@jp.gt.com

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太陽グラントソントン税理士法人
Grant Thornton Taiyo Tax Corporation