Japan Tax Bulletin

2016 Tax reform

December 2016

The 2016 Tax Reform was released on 31 March 2016. Major reforms of Corporate tax and International tax are discussed in this issue.

1. Reduction in the Corporate Income Tax Rate

The corporate income tax rate will be reduced from 23.9% to 23.4% for fiscal years beginning between 1 April 2016 and 31 March 2018 and further reduced to 23.2% for fiscal years beginning on or after 1 April 2018. The tax rate applied to income up to JPY8 million for Small and Medium-Sized Enterprises (SMEs) is 15% and this will continue for fiscal years beginning up to 31 March 2018.

2. Business scale taxation

A corporation with share capital of more than JPY100 million is subject to business scale taxation which comprises of an added-value levy and a paid-in capital levy. The rate of these levies changes as follows:

	Current	FY 2017
Added-value levy	0.72%	1.2%
Paid-in capital levy	0.3%	0.5%

3. Effective tax rate

As a result of the reduction in the tax rate, the effective corporate income tax rate will change as shown in the table below, based on a corporation in the Tokyo metropolitan area.

Capital amount	FY 2016	FYs 2017 & 2018	FY 2019
More than JPY100 million	33.06%	30.86%	30.62%
JPY100 million or less	35.36%	34.81%	34.60%

3.1 Depreciation method

The depreciation method for "attachments to buildings" and "depreciable assets for mining" purchased on or after 1 April 2016 changes as follows:

Asset classification	Depreciation method
Attachments to buildings	Straight-line
Depreciable assets for mining (limited to building, attachments to building and land improvement)	Straight-line or production output

3.2 Availability of tax losses

For large corporation, the maximum amount of taxable income that losses can be offset against and the loss carry-forward period will change as follows:

		FY 2016	FY 2017	FY 2018	FY 2019
% of taxable income that can be eliminated	Current	65%		50%	
	Revised	65%	60%	55%	50%
Carry-forward period	Current	9 years		10 years	
	Revised	9 years			10 years

For small and medium-sized corporations, taxable income still can be offset fully against carried-forward losses.

3.3 Directors compensation

Compensation paid to directors of certain restricted shares, granted in return for future performance will not require notification in advance. The cost of the restricted shares will be deductible for corporate tax purposes in the fiscal year when the restriction on transfer of the certain restricted shares are released.

3.4 Increase in penalties

The additional tax for filing an amended tax return after a tax audit notice has been issued but before an assessment under the audit is expected has been revised as follows. This change will be applicable to the national and local tax whose the filing date will fall on or after 1 Jan 2017:

Penalty	Current	Revised
Under-reporting of income for an amended return	None	5% (The penalty tax ratio increases to 10% of the portion of the increase in tax that is more than the greater of tax due or JPY500,000)
Additional tax for failure to file for an amended return	5%	10% (15% for the portion of tax due in excess of JPY500,000)

4. *Transfer Pricing Documentation requirements*

In the 2016 tax reform, transfer pricing documentation rules consistent with BEPS Action Plan 13 were introduced and multinational enterprise groups will be obliged to submit the following documents to the tax authorities:

1. Country-by-Country Report
2. Master file
3. Local file

1 and 2 are scheduled to apply from reporting periods commencing after 31 March, 2016. Requirement 3 is scheduled to apply from fiscal years starting after 31 March 2017.

Contact us for any enquiry on our services;

tax-news@jp.gt.com

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

www.grantthornton.jp