Deloitte.
デロイト トーマツ

Japan: Inbound Tax Alert

2018 Japanese Tax Reform Proposal

December 2017 – News Flash

On 14 December 2017, proposals for the 2018 tax reform were approved by the Liberal Democratic Party ("LDP") and the New Komeito Party and were posted on the LDP's website. (Japanese / PDF)

Under this tax reform, among other changes, tax credits and incentives will be expanded for companies which increase wages or capital investment, and the definition of a permanent establishment ("PE") will be expanded to align Japanese tax law with the definition under the OECD's Base Erosion and Profit Shifting project.

Please see below for a list of some key items that may affect foreign companies doing business and individuals residing in Japan. It should be emphasized that these proposals have not been enacted and could change prior to becoming law. Deloitte will provide further details regarding certain proposals in the coming weeks.

Corporate Tax

(1) Revision of wage increase tax credit

- A credit of 15% of *Increased Wage Payments* will be available to companies meeting the following for fiscal years beginning from 1 April 2018 to 31 March 2021 (up to 20% of corporate tax amount):
  - (Average Wage Payments – Comparative Average Wage Payments) / Comparative Average Wage Payments ≧ 3%; and
  - Domestic Capital Investment ≧ Total Depreciation Cost x 90%
- A credit of 20% of *Increased Wage Payments* will be available to companies whose *Training Costs* are greater than *Comparative Training Costs* by 20% or more.

(2) Revision of wage increase tax credit for certain *Small and Medium-sized Enterprises* ("SMEs")

- A credit of 15% of *Increased Wage Payments* will be available to companies meeting the following for fiscal years beginning from 1 April 2018 to 31 March 2021 (up to 20% of corporate tax amount):
  - (Average Wage Payments – Comparative Average Wage Payments) / Comparative Average Wage Payments ≧ 1.5%
- If the following conditions are met, a credit of 25% of *Increased Wage Payments* will be available:
  - (Average Wage Payments – Comparative Average Wage Payments) / Comparative Average Wage Payments ≧ 2.5%; and
  - Any of the following conditions is met:
    - *Training Costs* increased from the previous fiscal year by 10% or more; or
    - The SME has a certified business enhancement plan.

(3) Introduction of tax incentives for promoting information collaboration

- If a company obtains certification for its innovative data utilization plan and develops software according to that plan, assets acquired and used for information collaboration will be eligible for either special depreciation (30% of acquisition cost) or a credit (5%, or if certain conditions are not met, 3%).

(4) Revision of R&D or other tax incentives

- If a large company does not satisfy any of the following for a fiscal year beginning from 1 April 2018 to 31 March 2021, certain tax credits will not be available to the company for that fiscal year. However, this will not apply to a fiscal year (excluding the fiscal year in which the company was established or merged) for which the company's profit is equal to or less than the profit for the previous fiscal year:

- Average Wage Payments > Comparative Average Wage Payments; or
- Domestic Capital Investment > 10% of Total Depreciation Cost

(5) Revisions related to corporate reorganizations

- Revisions to the calculation of gains on a share transfer in a special business reorganization.
- Revisions to the controlling continuity test with respect to a 100% group if the transaction is expected be followed by a qualified distribution of shares.
- Revision of the employment continuity test/business continuity tests if the transaction is expected be followed by the transfer of business or employees carried out among 100% group companies.
- Revisions to the scope of corporate reorganizations without consideration.

International Tax

(1) Revision of PE related provisions

- Revision of PE definition
  - Expansion of scope of dependent agent PE
  - Reduction of scope of independent agent
  - Limitation on activities excepted from PE recognition
- Clarify rules when there are differences between tax treaties and Japanese law.

(2) Amendments to the anti-tax haven rules (i.e., CFC rules)

- Changes to the economic activity tests
- Changes to the amount of passive income and capital gains included in the parent company's income
- Revisions to the treatment of passive income of foreign financial subsidiaries
- Revision of the measure for eliminating double taxation

(3) Other

- Amendments to Japanese law for the implementation of the Multilateral Convention To Implement Tax Treaty-Related Measures To Prevent Base Erosion And Profit Shifting.
- Clarification regarding information provided to foreign authorities under tax treaties, etc.

Individual Tax and Inheritance/Gift Tax

(1) Reduction of employment income deductions

- The amount of employment income deductions will be reduced by JPY100,000.
- The maximum employment income deduction will be reduced to JPY1.95 million for annual employment income of over JPY8.5 million. Currently, the maximum deduction is JPY2.2 million for income over JPY10 million.

(2) Revision of the basic exemption structure

- The basic exemption will increase by JPY100,000 to JPY480,000, but will be phased out for incomes over a certain threshold:
  - Over JPY24 million to JPY24.5 million: JPY320,000
  - Over JPY24.5 million to JPY25 million: JPY160,000
  - Over JPY25 million: zero

(3) Revision of spousal deductions

- The deduction for a dependent spouse will increase from JPY380,000 to JPY480,000.
- The eligible total income range for the special spousal deduction will be revised from over JPY380,000 to JPY1.23 million, to over JPY480,000 to JPY1.33 million.

(4) Revision of inheritance/gift tax for foreign nationals

- In principle, the foreign assets of foreign nationals who do not have domicile in Japan will be out of scope for inheritance and gift tax.
- Gifts made by a foreign national within two years of losing domicile in Japan would be subject to gift tax if the foreign national re-establishes domicile in Japan within such two year period.

Newsletter Archives

To see past newsletters, please visit our website.
www.deloitte.com/jp/inboundtaxnewsletter

Subscribe to Japan: Inbound Tax Alert

To automatically receive future newsletters, please email deloitte-tokyo.newsletter@tohmatsu.co.jp and register by providing your name, company, position, and email address.

Contacts

Inbound Group, Deloitte Tohmatsu Tax Co.
Not all articles or facts and circumstances are covered in this alert. If you have any questions regarding your specific situation, please contact one of the tax professionals at our Deloitte office in Tokyo as follows:

Yang Ho Kim, Inbound Group Leader	yangho.kim@tohmatsu.co.jp	+81 3 6213 3841
Business Tax Services		
Sunie Oue, Partner	sunie.oue@tohmatsu.co.jp	+81 3 6213 3753
Jun Takahara, Partner	jun.takahara@tohmatsu.co.jp	+81 3 6213 3946
Indirect Tax Services		
Chikara Okada, Partner	chikara.okada@tohmatsu.co.jp	+81 3 6213 3900
Global Employer Services		
Russell Bird, Partner	russell.bird@tohmatsu.co.jp	+81 3 6213 3979
Transfer Pricing		
Timothy O'Brien, Partner	timothy.obrien@tohmatsu.co.jp	+81 3 6213 3923
Jun Sawada, Partner	jun.sawada@tohmatsu.co.jp	+81 3 6213 3927

Issued by

Deloitte Tohmatsu Tax Co.
Tokyo Office
Shin-Tokyo Building 5F, 3-3-1 Marunouchi, Chiyoda-ku, Tokyo 100-8305, Japan
Tel: +81 3 6213 3800
email: tax.cs@tohmatsu.co.jp
Corporate Info: www.deloitte.com/jp/en/tax
Tax Services: www.deloitte.com/jp/tax/s/en