KPMG
cutting through complexity

6 January 2015

KPMG Japan tax newsletter

Outline of the 2015 Tax Reform Proposals

The ruling coalition (the Liberal Democratic Party and New Komeito) agreed on the ‘Outline of the 2015 Tax Reform Proposals’ (‘Proposal’) on 30 December 2014. We have set out below brief summaries of the main points of the Proposal.

The Proposal itself is only an indicative outline and is unclear with respect to some of the contemplated changes. The details of the tax reform will be unveiled in the bills revising the tax laws and the succeeding amended tax laws, cabinet orders and ministerial ordinances. Please note that the final tax reform could differ from the Proposal depending on the outcome of discussions in the Diet.

I. Corporate Tax Rates

1. Reduction in Effective Corporate Tax Rates

(1) Corporation tax rates

National corporation tax rates applicable for fiscal years beginning on or after 1 April 2015 will be reduced as follows:

<table>
<tr><th colspan="2"></th><th>Current tax law</th><th>Proposal</th></tr>
<tr><td colspan="2">Large-sized companies, etc.</td><td>25.5%</td><td>23.9%</td></tr>
<tr><td rowspan="2">Small and medium-sized companies(*2)</td><td>Taxable income up to JPY8 million per year</td><td>19%
(15%)</td><td>19%
(15%(*1))</td></tr>
<tr><td>Taxable income in excess of JPY8 million per year</td><td>25.5%</td><td>23.9%</td></tr>
</table>

(*1) The applicable period for the reduced tax rate (15 percent) will be extended by 2 years and it will be applicable for fiscal years beginning prior to 1 April 2017.

(*2) Small and medium-sized companies for the purpose of this rule are defined as companies with stated capital of JPY100 million or less (at the end of a fiscal year), excluding the following cases:

- 100 percent of the shares are directly or indirectly held by one large-sized company (a company whose stated capital is JPY500 million or more); or
- 100 percent of the shares are held by two or more large-sized companies in a 100 percent group.

(2) Tax rates for business tax (income component) and special local corporation tax

Tax rates for business tax (income component) and special local corporation tax which are applicable to companies with stated capital in excess of JPY100 million (i.e. companies subject to size-based business tax) will be amended as follows:

[Business tax (income component)]

<table>
<tr><th colspan="2">Taxable base
(taxable income)</th><th rowspan="2">Current tax law</th><th colspan="2">Proposal</th></tr>
<tr><th>In excess of</th><th>Up to</th><th>Fiscal years beginning between 1 April 2015 and 31 March 2016</th><th>Fiscal years beginning on or after 1 April 2016</th></tr>
<tr><td>-</td><td>JPY4 million</td><td>2.2%</td><td>1.6%</td><td>0.9%</td></tr>
<tr><td>JPY4 million</td><td>JPY8 million</td><td>3.2%</td><td>2.3%</td><td>1.4%</td></tr>
<tr><td>JPY8 million</td><td>-</td><td>4.3%</td><td>3.1%</td><td>1.9%</td></tr>
</table>

- The above tax rates are the standard tax rates. The maximum tax rates are 1.2 times the standard rates.
- The reduced tax rates for taxable income of JPY8 million or less are not applicable to companies that have offices in three or more different prefectures and have a total stated capital of JPY10 million or more.

[Special local corporation tax]

<table>
<tr><th rowspan="2">Taxable base</th><th rowspan="2">Current tax law</th><th colspan="2">Proposal</th></tr>
<tr><th>Fiscal years beginning between 1 April 2015 and 31 March 2016</th><th>Fiscal years beginning on or after 1 April 2016</th></tr>
<tr><td>Taxable income x Standard rate of business tax</td><td>67.4%</td><td>93.5%</td><td>152.6%</td></tr>
</table>

(3) Effective corporate tax rate

By virtue of the amendments discussed above, the effective corporate tax rate will be reduced as follows:

Current tax law	Proposal	
Fiscal years beginning between 1 April 2014 and 31 March 2015	Fiscal years beginning between 1 April 2015 and 31 March 2016	Fiscal years beginning on or after 1 April 2016
34.62%	32.11%	31.33%
-	Reduced by 2.51% compared with the current tax rate	Reduced by 3.29% compared with the current tax rate

The above effective tax rates take into account the tax deductibility of special local corporation tax and business tax payments, and are calculated using the standard tax rates applied to a company whose stated capital is over JPY100 million.

The effective corporate tax rate using Tokyo tax rates applied to a company whose stated capital is over JPY100 million is currently 35.64 percent and the future tax rates will be available after the business tax rates (income component) for Tokyo are determined in the range between the standard rates and the maximum tax rates.

2. Size-Based Business Tax

Size-based business tax to be levied based on corporate business size, not on corporate income/revenue, as consideration for administration services provided by local governments was introduced in 2004. Under the 2015 tax reform, amendments to size-based business tax (including increases in tax rates) are proposed in order to make up for lost tax revenues caused by the reduction of the effective corporate tax rates.

(Companies subject to size-based business tax are companies with stated capital in excess of JPY100 million, excluding companies which are liable for business tax on their revenue (companies conducting electricity/gas supply business or insurance business) and Toshi-Houjin (J-REITs)/Tokutei Mokuteki Kaisha (TMKs), etc. Such scope will not be amended under the 2015 tax reform.)

(1) Increases in tax rates

Tax rates for size-based business tax will be increased as follows:

	Current tax law	Proposal	
		Fiscal years beginning between 1 April 2015 and 31 March 2016	Fiscal years beginning on or after 1 April 2016
Added value component	0.48%	0.72%	0.96%
Capital component	0.2%	0.3%	0.4%

The above tax rates are the standard tax rates. The maximum tax rates are 1.2 times the standard rates.

(2) Added value component (tax base)

[Current tax law]

[A]±[B]	
[A]	Total amount of the following three items: (a) labor costs (b) net interest payment (c) net rent payment
[B]	Income/loss for the current fiscal year

Where (a) exceeds 70 percent of [A], such excess portion will be deducted in calculating the tax base ('special deduction of labor costs').

[Proposal]

If a company meets the three conditions under the tax credits for salary growth rules (discussed in 'II. 5. Tax Credits for Salary Growth' below), the incremental salary payments (i.e. salary payments in the current year less salary payments in the base year) will be deducted from the tax base. Moreover, measures to make an adjustment in relation to the 'special deduction of labor costs' will be introduced.

(3) Capital component (tax base)

As the tax base of the capital component under the current tax law (stated capital + capital surplus for tax purposes) could be very small or even under zero due to purchases of own shares or mergers, etc., the tax base of the capital component will be amended as follows:

Current tax law	Proposal
Stated capital + Capital surplus for tax purposes	Larger amount of the following: • Stated capital + Capital surplus for tax purposes • Stated capital + Capital reserve for accounting purposes

(4) Special measures to minimize rapid increase in tax burden

The following two-year measures will be introduced in order to minimize any rapid increase in the tax burden due to the increase in business tax rates.

[Fiscal years beginning between 1 April 2015 and 31 March 2016]

Eligible companies	Reduced tax burden
Tax base for added value component ≦ JPY3 billion	A x 1/2
JPY3 billion < Tax base for added value component < JPY4 billion	A x Ratio between 0 and 1/2 (depending on the amount of added value component)
A = (a) - (b) (a): Amount of business tax (all components) for the fiscal year (b): Amount of hypothetical business tax (all components) calculated using the tax rates as of 31 March 2015	

[Fiscal years beginning between 1 April 2016 and 31 March 2017]

Eligible companies	Reduced tax burden
Tax base for added value component ≦ JPY3 billion	A x 1/2
JPY3 billion < Tax base for added value component < JPY4 billion	A x Ratio between 0 and 1/2 (depending on the amount of added value component)
A = (a) - (b) (a): Amount of business tax (all components) for the fiscal year (b): Amount of hypothetical business tax (all components) calculated using the tax rates as of 31 March 2016	

3. Inhabitant Tax (Per-Capita Tax)

Under the current tax law, tax rates for corporate inhabitant tax (per-capita tax) are determined based on 'stated capital + capital surplus for tax purposes.' It is proposed that the larger amount of 'stated capital + capital surplus for tax purposes' or 'stated capital + capital reserve for accounting purposes' will be the base for tax rates for corporate inhabitant tax (per-capita tax).

II. Corporate Taxation

1. Tax Loss Carry-Forwards

The tax loss carry-forward rules will be amended as below. The tax loss carry-forward rules cover (i) carry-forward rules for tax losses incurred by blue-return filing taxpayers, (ii) carry-forward rules for tax losses incurred through disasters by non-blue-return filing taxpayers and (iii) carry-forward rules for tax losses by tax consolidation groups.

(1) Deductible amount of tax losses

The deductible amount of tax losses brought forward will be reduced as follows:

Current tax law	Proposal	
	Fiscal years beginning between 1 April 2015 and 31 March 2017	Fiscal years beginning on or after 1 April 2017
Up to 80% of taxable income for the fiscal year	Up to 65% of taxable income for the fiscal year	Up to 50% of taxable income for the fiscal year

Please note that the deductible amount of tax losses brought forward for the following companies is up to the total amount of taxable income for the year:

Current tax law	Proposal
• Small and medium-sized company (the same as those described in I.1.(1) above)	• No change
• Tax qualifying Tokutei Mokuteki Kaisha (TMKs) and Toushi Houjin (J-REITs)	• No change
• Company which commenced rehabilitation procedures, etc. before 1 April 2012 - for fiscal years with days falling within a 7-year period from the day on which the rehabilitation plan was confirmed	• Company which commences rehabilitation procedures, etc. - for fiscal years with days falling within a 7-year period from the day on which the rehabilitation plan was confirmed (if the company is re-listed on a Financial Instruments Exchange, the company will not be eligible for the fiscal years ending on or after the date when the company is re-listed.)
	• Newly established company(*) - for fiscal years with days falling within a 7-year period from the establishment date (if the company is listed on a Financial Instruments Exchange, the company will not be eligible for the fiscal years ending on or after the date when the company is listed.)

(*) Newly established company does not include the following:

- 100 percent of the shares are directly or indirectly held by one large-sized company (a company whose stated capital is JPY500 million or more); or
- 100 percent of the shares are held by two or more large-sized companies in a 100 percent group.

(2) Tax loss carry-forward period

The tax loss carry-forward period will be extended from 9 years to 10 years. In this connection, the preservation period for accounting documents, the statute of limitations for corrections by the tax authorities with respect to tax losses and requests for correction by taxpayers with respect to tax losses will also be extended from 9 years to 10 years. These amendments will be applied to tax losses incurred in fiscal years beginning on or after 1 April 2017.

2. Dividends Received Deduction

The rules concerning the dividends received deduction are proposed to change as follows:

(1) Excludable ratios for dividends derived from shares

[Current tax law]

Category of shares	Excludable ratios
Shares in 100 percent subsidiaries (ownership ratio: 100%)	Dividends received x 100%
Shares in related companies (ownership ratio: 25% or more)	(Dividends received - Interest on debts) x 100%
Shares other than the above	(Dividends received - Interest on debts) x 50%

[Proposal]

Category of shares	Excludable ratios
Shares in 100 percent subsidiaries (ownership ratio: 100%)	Dividends received x 100%
Shares in related companies (ownership ratio: more than 1/3)	(Dividends received - Interest on debts) x 100%
Other shares (ownership ratio: more than 5% but 1/3 or less)	Dividends received x 50%
Non-controlling shares (ownership ratio: 5% or less)	Dividends received x 20%

- The base years used in calculation of interest on debts attributable to shares in related companies under the simplified method will be amended from 'fiscal years commencing between 1 April 2010 and 31 March 2012' to 'fiscal years commencing between 1 April 2015 and 31 March 2017.'
- The special measure for non-life insurance companies with respect to interest on debts will be abolished.
- A special measure to enable blue-return filing insurance companies to exclude 40 percent of dividends derived from non-controlling shares from their taxable income will be introduced.

(2) Excludable ratios of distribution of profits from investment trusts

	Current tax law	Proposal
Equity investment trusts	(Distribution of profits x 1/2 (or 1/4) - Interest on debts) x 50%	0
ETFs	(Distribution of profits - Interest on debts) x 50%	Distribution of profits x 20%

3. Special Measures for Relocation

New tax measures to revitalize regional economies by encouraging businesses to move their head-office functions out of big cities to local regions or to expand their head-office functions at existing regional facilities will be introduced. These measures are contingent upon certain amendments to the Regional Revitalization Act and blue-return filing companies which obtain an approval for the Enhancement of Regional Business Location Plan ('Plan') during the period from the effective date of the revised Regional Revitalization Act to 31 March 2018 will be eligible companies under these measures.

(1) Special depreciation/tax credits for buildings

When a company eligible for the special measures for relocation acquires buildings, attachments to the buildings and structures (at least JPY20 million in total (JPY10 million in total for a small and medium sized-company)) in accordance with the Plan and puts them into use for its business, the company will be entitled to apply for either special depreciation or a tax credit.

		Relocation Plan	Expansion Plan
Special depreciation		Acquisition cost x 25%	Acquisition cost x 15%
Tax credits (capped at 20% of the corporation tax liability)	Where a Plan is approved prior to 31 March 2017	Acquisition cost x 7%	Acquisition cost x 4%
	Other than the above	Acquisition cost x 4%	Acquisition cost x 2%

Relocation Plan:	Plan to move head-office functions from Tokyo 23 wards to local regions (all local regions excluding Tokyo, Nagoya and Osaka areas, to be qualified by the national government)
Expansion Plan:	Plan to expand head-office functions at existing facilities located in local regions (certain local regions excluding Tokyo, Nagoya and Osaka areas, to be qualified by the national government)
Head-office functions:	Offices for management decision making, administration of management resources (general affairs, accounting, human resources), central controls of operations (e.g. R&D), etc. (not including factories and offices for management of regional businesses)

Reference information: the Ministry of Economy, Trade and Industry '2015 Tax Reform'(Japanese only)

(2) Expansion of tax credits for job creation

Under the special measures for relocation, the rules on tax credits for job creation will be expaned.

When an eligible company for the special measures for relocation increases its employees working in the offices relocated, built or reformed in accordance with the Plan, the company will be entitled to apply a tax credit based on the increased number of such employees (capped at total increased number of employees of the company) for fiscal years with days falling within a 2-year period from the day the Plan is approved ('Applicable Years') as follows:

Cases	Tax credits	
Where all of conditions of the current rules for tax credits for job creation are met	Increased number of employees	x JPY500,000
Where conditions (excluding (b) below) of the current rules for tax credits for job creation are met	Increased number of employees	x JPY200,000

Where the Plan is a Relocation Plan, the company will be entitled to take an additional tax credit (increased number of employees x JPY300,000) for any fiscal years within Applicable Years from the fiscal year when the above tax credits are applied.

The maixmum amount of the above tax credits and the tax credits for job creation is 30 percent of the corporation tax liability.

[Outline of the current rules for tax credits for job creation]

Eligible company	Blue-return filing company which submits a job creation plan to a public job placement agency	
Applicable periods	Fiscal years beginning between 1 April 2011 and 31 March 2016	
Conditions (All of the four conditions should be met.)	(a)	The number of employees at the end of the current fiscal year has increased by 5 employees or more (for small and medium-sized companies[*], 2 employees or more) when compared to the preceding fiscal year end.
	(b)	The number of employees at the end of the current fiscal year has increased by 10% or more when compared to the preceding fiscal year end.
	(c)	[Salary payments in the current fiscal year] - [Salary payments in the preceding fiscal year] ≧ [Salary payments in the preceding fiscal year] x [Percentage increase in the number of employees] x 30%
	(d)	Zero terminations in the current fiscal year and the preceding fiscal year.
Tax credits	Increased number of employees compared to the preceding fiscal year end x JPY400,000 (capped at 10% (20%for small and medium-sized companies) of the corporation tax liability)	

(*) Small and medium-sized companies for the purpose of this rule are defined as follows:

- Companies with stated capital of JPY100 million or less (as at the end of the fiscal year), excluding the following cases:
  (i) at least 50 percent of the shares are held by one large-scale company (a company whose stated capital is over JPY100 million); or
  (ii) at least two-thirds of the shares are held by two or more large-scale companies
- Companies with no capital whose number of regular employees is 1,000 or less

4. Tax Credits for R&D Costs

The rules concerning tax credits for total R&D costs are proposed to change as follows:

(Note that no amendments are expected to the rules on additional tax credits for R&D costs (temporary measures applied for fiscal years commencing prior to 1 April 2017).)

	Current tax law	Proposal
Creditable amount	R&D costs (other than specified R&D costs) x 8-10% (12% for small and medium-sized companies(*))	No change
	Specified R&D costs x 12%	Specified R&D costs x 20% or 30% • R&D costs for R&D activities carried out with national R&D institutions or universities/for R&D activities which are commissioned to national R&D institutions or universities: 30% • Other than the above: 20%
Maximum tax credit	Corporation tax liability x 30% (fiscal years beginning between 1 April 2013 and 31 March 2015)	Corporation tax liability x 25% (Additionally, 5% of corporation tax liability will be available for specified R&D costs.)

(*) Small and medium-sized companies are the same as those described in 3(2).

- In addition to the above, the scope of specified R&D costs will be amended, e.g. royalties on intellectual property paid to certain small and medium-sized companies will be included in specified R&D costs.
- Currently, if the creditable amount exceeds the maximum tax credit, the excess portion can be carried forward to the following year. Such rule will be abolished.

5. Tax Credits for Salary Growth

The ‘designated ratio’ of condition (a) under the rules concerning tax credits for salary growth will be relaxed as indicated below:

[Outline of tax credits for salary growth]

<table>
<tr><td>Eligible company</td><td colspan="6">Blue-return filing companies</td></tr>
<tr><td>Applicable periods</td><td colspan="6">Fiscal years beginning between 1 April 2013 and 31 March 2018</td></tr>
<tr><td rowspan="3">Conditions
(All of the three conditions should be met.)</td><td>(a)</td><td>Salary payments
in the current fiscal year</td><td>≧</td><td>Salary payments
in the base year</td><td>x</td><td>Designated ratio</td></tr>
<tr><td>(b)</td><td>Salary payments
in the current fiscal year</td><td>≧</td><td colspan="3">Salary payments
in the preceding fiscal year</td></tr>
<tr><td>(c)</td><td>Average salary payments
in the current fiscal year</td><td>></td><td colspan="3">Average salary payments
in the preceding fiscal year</td></tr>
<tr><td>Tax credit</td><td colspan="6">{ [Salary payments in the current fiscal year] - [Salary payments in the base year] } x 10%
(capped at 10% (20%for small and medium-sized companies(*)) of the corporation tax liability)</td></tr>
</table>

(*) Small and medium-sized companies are the same as those described in 3(2).

- ‘Salary payments’ refers to salary paid to domestic employees which are deductible in calculating the company’s income for each fiscal year.
- ‘Domestic employees’ refers to employees (excluding employees who have a special relationship with directors or who have status as directors) working at offices located in Japan, who are listed in a wage ledger prescribed by the Labor Standards Act.
- ‘Base year’ refers to the fiscal year preceding the first fiscal year commencing on or after 1 April 2013.

[‘Designated ratio’ of condition (a)]

Applicable periods (Fiscal years beginning in the following periods)	Current tax law	Proposal	
		Other than small and medium-sized companies	Small and medium-sized companies
before 1 April 2015	102%	102%	102%
from 1 April 2015 to 31 March 2016	103%	103%	103%
from 1 April 2016 to 31 March 2017	105%	104%	103%
from 1 April 2017 to 31 March 2018	105%	105%	103%

6. J-REITs/ Tokutei Mokuteki Kaisha (TMKs)

(1) J-REITs

Profit distributions paid by a Toushi Houjin (J-REIT) are deductible in calculating taxable income for the J-REIT, provided that the tax qualifying requirements are satisfied. This generally makes a J-REIT similar to a pass-through entity that is not required to pay corporate income taxes.

However, when profits for accounting purposes are smaller than profits for tax purposes due to differences between the accounting treatment and tax treatment of certain items (e.g. impairment losses), even if all profits for tax purposes are distributed, taxable income may arise since part of these distributions will not be treated as profit distributions for tax purposes and therefore will not be tax deductible. Moreover, there are cases where this can lead to the J-REIT failing to satisfy its tax qualifying requirements.

In order to resolve such issues, the Proposal includes the following amendments, which are contingent upon certain amendments to the J-REIT Law.

- When the amount of distributions exceeds profits for accounting purposes, such excess portion will be treated as profit distributions for tax purposes (as opposed to the current treatment as return of investment principal) to the extent of the increased amount of 'Reserve for Temporary Difference Adjustments.'
- For purposes of the 90 percent test (i.e. the amount of dividend payments made by a J-REIT in a fiscal year must exceed 90 percent of its distributable profit in such fiscal year), which is one of the tax qualifying requirements for a J-REIT, the increased amount of the 'Reserve for Temporary Difference Adjustments' will be deducted from the amount of distributable profit.

Further details regarding the above 'Reserve for Temporary Difference Adjustments' are expected to be made available later.

(2) Tokutei Mokuteki Kaisha (TMKs)

Profit distributions paid by a Tokutei Mokuteki Kaisha (TMK) are deductible in calculating taxable income for the TMK, provided that the tax qualifying requirements are satisfied. This generally makes a TMK similar to a pass-through entity not required to pay corporate income taxes.

Under the 2010 tax reform, the 'onshore issuance requirement for specified equity' (i.e. the requirement that more than 50 percent of specified equity must be issued in Japan) was added to the tax qualifying requirements. For TMKs established before 1 April 2010, this amendment is applicable only when a TMK submits either of the following notifications on or after 1 April 2010:

- Notification of a change in the period and certain items relating to the period in the Asset Liquidation Plan
- Notification of termination of business pertaining to an Asset Liquidation Plan

It is proposed that the 'onshore issuance requirement for specified equity' will also be applied to a TMK established before 1 April 2010 if these TMKs do not submit a notification of commencement of business prior to 1 April 2015.

(3) Registration tax/real property acquisition tax

- Registration tax

The special measures for registration tax (reduced tax rate of 1.3 percent) that are applicable to real estate acquired by J-REITs and TMKs until 31 March 2015 will be extended for 2 years. The scope of real estate for which the reduced tax rate is available will also be expanded by including 'warehouses and sites for warehouses.'

- Real property acquisition tax

The special measures for real property acquisition tax (reduced tax base by 3/5) that are applicable to real estate acquired by J-REITs and TMKs until 31 March 2015 will be extended for 2 years. Additionally, the scope of real estate assets for which the reduced tax base is available will be expanded by including 'logistic facilities' acquired by J-REITs.

7. Other Amendments

(1) Capital gain rollover rule for certain assets

The capital gain rollover rule for certain assets such as long-term held land that was applicable until 31 December 2014 under the current tax law will be extended for 2 years and 3 months, though the scope of assets to be purchased will be narrowed as follows:

	Current tax law	Proposal
Transferred assets (located in Japan)	Land, etc. buildings or structures that have been held for more than 10 years	No change
Replacement assets (located in Japan)	• Certain land, etc. • Buildings, structures • Machinery/equipment • Certain transport and carriage tools used in the railroad industry	 → Machinery/equipment will not be eligible. → Container trains will not be eligible.

When a company sells a 'transferred asset' and acquires a 'replacement asset,' 80 percent of the taxation on the capital gain will be deferred under the current rules. Such percentage will be reduced to 70 percent or 75 percent if assets located in certain local regions are sold and assets located in certain large cities are acquired.

(2) Special measures on reserves for bad debts of small and medium-sized companies

A small and medium-sized company is allowed to calculate a reserve for potential bad debts using the following formula:

{(Total amount of account receivables) - (Amount not to be treated as receivables in effect)} x (Statutory rate depending on industry of the company)

The base period used under the simplified method in calculating the 'amount not to be treated as receivables in effect' will be amended from 'fiscal years beginning between 1 April 1998 and 31 March 2000' to 'fiscal years beginning between 1 April 2015 and 31 March 2017.'

(3) Carry-over hedge/market-price hedge accounting

It is necessary to obtain approval of the competent tax office under the current tax law in order to use the underlying product method in determining the effectiveness of option transactions for hedging purposes. A company taxpayer will be able to use the underlying product method by submitting a notification to the competent tax office under the 2015 tax reform.

III. International Taxation

1. Foreign Dividend Exclusion (FDE)

The following amendments are proposed for the Foreign Dividend Exclusion (FDE) system, as a response to the recommendation of 'Action 2 - Neutralising the Effects of Hybrid Mismatch Arrangement' included in the first deliverables released in September 2014 under the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project:

[Current tax law]

- Where a Japanese company receives dividends from its foreign subsidiary (a foreign company, 25 percent or more of whose shares are held by the Japanese company for at least 6 months), 95 percent of the dividends are exempt.
- The National Tax Agency has clarified in its Q&A that, even when dividends paid by a foreign subsidiary are deductible in the country where the foreign subsidiary is located (e.g. preference dividends from Redeemable Preference Shares (RPS) in Australia and interest on capital (IOC) in Brazil), 95 percent of the dividends are also exempt in Japan.
- Foreign withholding taxes on dividends to which FDE is applied are not deductible. Moreover, foreign withholding taxes on dividends from foreign subsidiaries are not creditable regardless of whether the FDE is applied to the dividends.

[Proposal]

- When a Japanese company receives dividends from its foreign subsidiary and the whole amount or part of the dividends is deductible in the country where the head office of the foreign subsidiary is located, FDE will not be applied to the dividends.
- When part of dividends paid by a foreign company is deducted in the country of the foreign company, it is allowed to exclude only such part from dividends subject to the FDE. (Attaching details to a final tax return and preserving certain documents are required.)
- Foreign withholding taxes on dividends from foreign subsidiaries to which the FDE is not applied by virtue of the above amendments will be creditable.

The above amendments will be applied to dividends to be received from foreign subsidiaries in fiscal years of a Japanese company beginning on or after 1 April 2016.

Note that the current treatment will be retained if dividends are derived from shares held as of 1 April 2016 and are received from foreign subsidiaries in fiscal years of a Japanese company beginning from 1 April 2016 to 31 March 31 2018.

2. Anti-Tax Haven (CFC) Rules

(1) Reduction in the threshold

Under the current tax law, a foreign related company whose effective income tax rate is '20 percent or less' falls into the definition of a Specified Foreign Subsidiary (SFS) whose income is aggregated to its Japanese parent company. This threshold will be reduced to 'less than 20 percent.'

This amendment is understood as being made considering that the corporation tax rate will be reduced to 20 percent in April 2015 in the UK.

(2) Relaxation of the exception conditions for the aggregation rules on an entity basis

(a) Revisions to special treatment of regional headquarters companies

The following amendments are proposed for the special treatment of the exception conditions (business purpose test) for a regional headquarters company:

	Current tax law	Proposal
Scope of a 'controlled company'	Only a foreign company is entitled to be a controlled company under certain conditions (e.g. at least 25% of shares are held by the regional headquarters company)	A Japanese company will also be entitled to be a controlled company under certain conditions (e.g. at least 50% of shares are held by the regional headquarters company)
One of conditions for a regional headquarters company ('management services' test)	Management services must be provided to at least two controlled companies.	Management services must be provided to at least two foreign controlled companies.
Condition for a 'regional holding company'	Book value of shares in its controlled companies > Total book value of share investments x 50%	In addition to the existing condition, either of the following will need to be satisfied: • Book value of shares in its foreign controlled companies > Total book value of controlled companies x 50%, or • Management service fees received from foreign controlled companies > Total management service fees received from controlled companies x 50%

Under the special treatment of the exception conditions (unrelated party test) for a regional logistics management company, transactions between a regional logistics management company and its Japanese controlled companies will be treated as transactions with related parties.

(b) Revision to the declaration requirements

Under the current tax law, the exception conditions for the aggregation rules on an entity basis are applicable only when certain documents are attached to a final tax return and certain information is preserved. It is proposed that even if such requirements are not met, where there are unavoidable circumstances, the exception conditions will be applicable as long as such documents/information is provided to the tax authorities.

***

The above amendments discussed in (1) and (2) will be applied for fiscal years of an SFS beginning on or after 1 April 2015.

(3) Treatment of deductible dividends

In connection with the amendments discussed in '1. Foreign Dividend Exclusion (FDE)' above, the following revisions are proposed:

(a) Deductible dividends received by an SFS

- When an SFS receives dividends from its subsidiary (a company, 25 percent or more of whose shares are held by the SFS for at least 6 months), such dividends are deductible in calculating taxable income of the SFS to be aggregated to its Japanese parent company. If they are 'deductible dividends' (the whole amount or part of the dividends is deductible in the country where the head office of the subsidiary is located), the dividends will not be allowed to be deducted in calculating taxable income of the SFS to be aggregated to its Japanese parent company.
- However, where an SFS receives deductible dividends from its subsidiary that is also an SFS, such dividends will be deductible in calculating taxable income of the SFS receiving the dividends to the extent of the taxable income of the subsidiary that has already been aggregated to the Japanese company.

The above amendments will be applied to taxable income to be aggregated to a Japanese parent company for fiscal years of an SFS beginning on or after 1 April 2016.

(b) Deductible dividends received by a Japanese company from an SFS

Although deductible dividends received from a foreign subsidiary will be taxable in the hands of its Japanese parent company due to the amendments to the FDE rules discussed in 1. above, if the foreign subsidiary is an SFS, such dividends will be exempt from tax for the Japanese company to the extent of the amount that has been taxed under the aggregation rules in the fiscal year the dividends are received (the dividend receiving year) and the fiscal years beginning within 10 years before the commencement of the dividend receiving year.

The above amendments will be applied to dividends received from an SFS in fiscal years of a Japanese company beginning on or after 1 April 2016.

Note that the current treatment will be retained if dividends are derived from shares held as of 1 April 2016 and are received from an SFS in fiscal years of a Japanese company beginning from 1 April 2016 to 31 March 31 2018.

3. Other Amendments

(1) Change of international taxation principle

With respect to the amendments to the international taxation principle adopting the attributable income principle under the 2014 tax reform, additional amendments including the following are proposed in order to implement them effectively:

- It will be clarified that if a foreign company earns interest on short-term accounts receivable (less than 6 months), the interest will not fall into 'income derived from operation and possession of assets in Japan' categorized as Japanese source income for corporation tax purposes.
- There are assets that could derive Japanese source income (e.g. capital gains and rental income derived from real estate in Japan) even if the assets are not attributable to a permanent establishment (PE) of a foreign company. Where such assets are transferred between a foreign company and its PE internally, the assets will be treated as transferred at book value of the assets, not at an arm's length price.

The above amendments will be applied for fiscal years beginning on or after 1 April 2016 for corporation tax purposes and from 2017 income for income tax purposes.

(2) Exemption for interest on margins for over-the-counter derivatives

In connection with the introduction of margin requirements for non-centrally cleared over-the-counter derivatives, if a foreign financial institution receives interest on certain margins deposited at a Japanese financial institution under over-the-counter derivative transactions with the Japanese financial institution conducted prior to 31 March 2018, the interest will be exempt from income tax provided that the foreign financial institution submits appropriate tax exemption applications.

This amendment will be applicable for interest to be received on or after 1 July 2015.

(3) Reporting requirements for automatic exchange of financial account information of non residents

The G20 countries set up a framework to exchange information on financial accounts of non residents among competent authorities to combat international tax evasion and avoidance. Japan has clarified that it will undertake the first exchange of the information in 2018. It is proposed that new domestic rules for financial institutions to report financial information of non residents to the competent tax offices will be developed and will be enacted on 1 January 2017.

IV. Consumption Tax

1. Consumption Tax Rate Increase

In line with the statement made by Prime Minister Shinzo Abe in November 2014 that an increase in the consumption tax rate to 10 percent should be postponed by 18 months from October 2015 (stipulated in the law) to April 2017, the Proposal confirms the following with respect to the increase in the consumption tax rate:

- The consumption tax rate will be raised to 10 percent on 1 April 2017.
- The 'designated date' for transitional measures (e.g. a transitional measure for construction works) for the increase in the consumption tax rate to 10 percent will be 1 October 2016.
- An 'escape clause' included in the Joint Reform of Social Security and Tax Systems Law that stipulates that the increases in the consumption tax rate should be determined based on the comprehensive consideration of the economic environment will be deleted.

2. Consumption Tax Treatment of Digital Services

(1) Change of the place of taxation

It is proposed that the principle for the place of taxation for 'digital services' will be changed as follows. Under the proposal, 'digital services' provided from foreign suppliers to domestic business customers and domestic consumers will be categorized as domestic transactions subject to consumption tax, which is the same tax treatment as in EU countries.

Current tax law	Proposal
Place of the office of the supplier of the service	Location of the recipient of the service (Destination principle)

'Digital services'

- are services supplied through telecommunications channels, such as online deliveries of e-books and music, advertisements on websites, and
- does not include supplemental services incidental to non-digital services or services that merely enable customers to use communication lines, but
- includes transactions that are categorized as giving authorization to a person to exploit copyrighted works.

(Although a proposed framework for the consumption tax treatment of cross-border supplies of services discussed by the Tax Commission in June 2014 indicated that the scope of services subject to amendment would be much broader, the final proposal unveiled in the Proposal covers 'digital services' only.)

(2) Classification of 'B2B digital supplies' and 'B2C digital supplies'

In EU countries, VAT identification numbers are used for the purpose of recognizing whether the customer is a consumer or a business customer. However, as Japan has not adopted a VAT identification number system, it is proposed that for the supplies of 'digital services' by foreign suppliers (non residents or foreign companies), 'B2B (business to business) digital supplies' and 'B2C (business to consumer) digital supplies' will be defined as follows based on the characteristics of the services or the terms and conditions of the transactions:

'B2B digital supplies'	'Digital services' supplied by foreign suppliers where it is clear that recipients of the services are business customers based on the characteristics of the services or the terms and conditions of the transactions
'B2C digital supplies'	'Digital services' supplied by foreign suppliers not falling under the above ('B2B digital supplies')

(3) Compliance rules – 'B2B digital supplies'

It is proposed that for 'B2B digital supplies,' the obligation to declare/pay consumption tax on the 'B2B digital supplies' will be imposed on the domestic business customer under the reverse charge mechanism.

Business customers receiving 'B2B digital services' in Japan

- Consideration for a 'B2B digital supply' paid by the domestic business customer to the foreign supplier does not include consumption tax. The domestic business customer will have the obligation to declare/pay consumption tax on the 'B2B digital supply' on behalf of the foreign supplier. The same amount of such consumption tax will also be included in the calculation of creditable consumption tax in the consumption tax return of the domestic business customer.
- If the taxable revenue ratio (the ratio of taxable sales over the sum of taxable and non-taxable sales) for a taxable period of a domestic business customer receiving 'B2B digital supplies' is greater than or equal to 95 percent, for the time being, such 'B2B digital supplies' will be ignored for the taxable period.
- Where a domestic business customer receiving 'digital services' adopts the simplified calculation method in calculating consumption tax liabilities, consumption tax on 'B2B digital supplies' will be included in the creditable consumption tax. However, for the time being, 'B2B digital services' will be ignored for a taxable period to which the simplified calculation method is applied.

Foreign suppliers providing 'B2B digital supplies' in Japan

- A foreign supplier providing 'B2B digital supplies' in Japan will have an obligation to notify domestic business customers in advance that these supplies are subject to the reverse charge mechanism.

(4) Compliance rules – 'B2C digital supplies'

It is proposed that an obligation to file a consumption tax return and pay consumption tax to the Japanese government with respect to 'B2C digital supplies' will be imposed on foreign suppliers.

Business customers receiving 'B2C digital services' in Japan

- There will be cases where a domestic business customer receives services categorized as 'B2C digital supplies' from a foreign supplier. In such cases, the domestic business customer will not be allowed to take a credit for the consumption tax for the 'B2C digital supplies' for the time being.
- However, if a domestic business customer receives services categorized as 'B2C digital supplies' from a 'registered foreign supplier,' the domestic business customer will be able to take a credit for the consumption tax for the 'B2C digital supplies' under certain conditions, e.g. preserving invoices indicating the registration number of the 'registered foreign supplier.'

Foreign suppliers providing 'B2C digital supplies' in Japan

- A foreign supplier providing 'B2C digital supplies' in Japan will have an obligation to file a consumption tax return and pay consumption tax to the Japanese government with respect to 'B2C digital supplies.'

(5) Registration regime for foreign suppliers

In connection with the above amendments, a new regime to register foreign suppliers will be introduced.

Procedures to become a 'registered foreign supplier'

When a certain foreign supplier (which does not have consumption tax exempt status) satisfies the following conditions, the foreign supplier will be able to become a 'registered foreign supplier' by submitting an application form to the National Tax Agency through the competent tax office.

- The foreign supplier has an office involving with 'digital supplies' in Japan or the foreign supplier has appointed a tax representative for consumption tax purposes. (If the foreign supplier is required to appoint a tax agent (e.g. where the foreign supplier does not have an office in Japan), an appointment of a tax agent will be an additional condition.)
- The foreign supplier has no delinquent tax liability in Japan and at least one year has passed after the cancelation of the previous registration of the foreign suppler.

Foreign suppliers will be able to submit an application for registration from 1 July 2015.

Other related points

- The names, addresses and registered numbers of 'registered foreign suppliers' will be made public on the website by the National Tax Agency immediately after the registration.
- The rule to determine tax exempt status based on taxable sales in the base period will not apply to a 'registered foreign supplier' after obtaining an approval for the registration unless the supplier submits a notification to cancel its registration.

(6) Special measures to calculate taxable sales in the base period

In determining tax exempt status based on taxable sales in the base period (i.e. if it is JPY10 million or less, the supplier will have tax exempt status), the following special treatment will be provided:

- If the first day of the base period (generally, the fiscal year 2 years prior to the current fiscal year) is prior to 1 October 2015, taxable sales in the base period should be calculated on the assumption that the amendments discussed above were applied from the first day of the base period.
- If it is difficult to calculate taxable sales using the above method, taxable sales in the base period should be 4 times of taxable sales for the period from 1 April to 30 June 2015 on the assumption that the amendments discussed above were applied for that period.

(7) Timing of application

The amendments discussed in (1) – (4) and (6) above will be applied to transactions on or after 1 October 2015 and the amendment in (5) will be effective on 1 July 2015.

3. Consumption Tax Treatment of Performances by Artists and Sports Persons

When a foreign supplier provides performances conducted by artists and sports persons in Japan, the foreign supplier has the obligation to declare/pay consumption tax on the service supplies under the current tax law. However, the Board of Audit of Japan has pointed out that there are a number of cases where consumption tax on such supplies was not declared/paid appropriately. Thus, it is proposed that such obligation will be imposed on the service recipients in Japan under the reverse charge mechanism for service supplies provided on or after 1 April 2016.

V. Individual Taxation

1. Introduction of Exit Tax

In order to prevent wealthy individuals from avoiding tax on capital gains in Japan by moving out of Japan with appreciated financial assets and subsequently selling those assets, a special measure (exit tax) to impose income tax on unrealized capital gains on financial assets at the time of departure will be introduced.

(1) An outline of the measure

Eligible person	A resident individual satisfying both of the following conditions (a) Total value of 'financial assets' held by the person as of departure from Japan is JPY100 million or more. (b) The person has lived in Japan(*) for more than 5 years in the last 10 years before departure
'Financial assets' subject to the exit tax	Securities stipulated in the Income Tax Law Contributions under a Tokumei-Kumiai agreement Unsettled derivatives transactions Unsettled margin transactions Unsettled when-issued transactions (e.g. trading transactions in advance of shares being issued)
Timing of taxation	Time of departure from Japan
Calculation of taxable income	Taxable income will be calculated assuming that capital gains/losses on 'financial assets' were realized at the time of departure from Japan.

(*) The period of living in Japan includes the grace period described in (2)(b) below, but excludes the period of staying in Japan with a status of residence under Table 1 of the Immigration Control and Refugee Recognition Act (e.g. specialist in humanities/international services, intra-company transferee, temporary visitor).

(2) Main points to be considered

Main points to be considered for the measure are as follows:

(a) In the case of returning to Japan within 5 years from departure

Where an individual who was subject to the measure returns to Japan within 5 years from the departure without having sold the 'financial assets,' the exit tax will be reversed by filing a request for correction.

(b) Grace period for tax payments

An individual subject to the exit tax will be allowed to enjoy a tax payment grace period for 5 years (subject to extension upon an application up to 10 years) when collateral equivalent to the amount of the exit tax is provided and a notification for appointment of a tax agent is submitted.

(c) In the case where 'financial assets' are sold prior to the expiration of grace period

- The amount of exit tax corresponding to the 'financial assets' sold within the grace period should be paid.
- If the selling price of the 'financial assets' falls below the value of the assets as of the departure, the exit tax will be reduced by filing a request for correction.
- When foreign income tax is imposed on capital gains on the 'financial assets' and the double taxation is not eliminated in the foreign country, the foreign tax credits will be applicable in Japan by filing a request for correction.

(d) Termination of grace period

The amount of the exit tax liability should be paid at the end of the grace period. If the value of the 'financial assets' at the date of the termination falls below the value of the assets as of departure, the exit tax will be reduced by filing a request for correction.

(e) In the case where a foreign exit tax is imposed

When a resident individual who already paid a foreign exit tax on 'financial assets' sells the 'financial assets,' the double taxation on the 'financial assets' will be eliminated by increasing the acquisition cost of the 'financial assets' for Japanese tax purposes to the value that was subject to the foreign exit tax.

(f) In the case where 'financial assets' are transferred to non residents by gift, inheritance or bequest

Where 'financial assets' owned by an eligible person are transferred to a non resident individual by gift, inheritance or bequest, exit tax will also be applied assuming the unrealized capital gains/losses on those assets were realized at the time that the gift, inheritance or bequest occurs.

(3) Timing of application

- The above new rules except (2)(e) will be applied when eligible persons depart from Japan on or after 1 July 2015 or when eligible persons' 'financial assets' are transferred to non resident individuals upon a gift, inheritance or bequest on or after 1 July 2015.
- The treatment indicated in (2)(e) above will be applicable when events equivalent to events subject to exit tax in Japan occur in foreign countries on or after 1 July 2015.

2. Tax Exemption for Small Investments in Listed Shares (NISA)

The following amendments are proposed for the tax exemption for dividends and capital gains arising on small investments in listed shares managed in special tax exempt accounts (i.e. Nihon individual savings accounts (NISA)).

(1) Expansion of tax exempt investments

The maximum amount of tax exempt investments which is currently JPY1 million in total acquisition costs of listed shares held in a NISA per year will be expanded up to JPY1.2 million from 2016.

(2) Introduction of Junior NISA

Under the current NISA system, resident individuals aged 20 years or over at the beginning of the year are eligible for opening NISA accounts. A Junior NISA targeted at children under 20 years old will be newly introduced. An outline of the Junior NISA is as follows:

Eligible person	Resident individuals under the age 20 (children under 20 years old at the beginning of the year and infants born in the year)
Tax exempt income	Dividends and capital gains from listed shares
Tax exempt investment	JPY0.8 million per year
Allowable period for setting up a Junior NISA	8 years (from 2016 to 2023)
Restriction of withdrawal	Withdrawal will be restricted until when the eligible person turns 18 years old.

Setting up of Junior NISA accounts will start on 1 January 2016 and tax exempt treatment will be applicable for listed shares to be deposited in the accounts on or after1 April 2016.

3. Housing-Related Taxation

(1) Special tax credits for housing loans

The special tax credits for housing loans which are due to expire at the end of 2017 will be extended for one and a half years until June 2019. The maximum balance of housing loans available for credit at the end of a year and the annual maximum amount of tax credit are as follows:

<table>
<tr><th>Type of houses</th><th>Year of residence</th><th>Credit period</th><th>Maximum loan balance at end of year for determining credit</th><th>Credit rate</th><th>Maximum tax credit (annual amount)</th></tr>
<tr><td>Ordinary home</td><td rowspan="2">From 1 April 2014 to
31 December 2017 (Current law)
↓
30 June 2019 (Proposal)</td><td rowspan="2">10 years</td><td>JPY40 million</td><td rowspan="2">1.0%</td><td>JPY0.4 million</td></tr>
<tr><td>Certified high quality home, etc.</td><td>JPY50 million</td><td>JPY0.5 million</td></tr>
</table>

Where the amount of tax credits for a given year exceeds the national income tax liability for that year, the excess will be deducted from the local inhabitant tax liability for the following year up to JPY136,500. This local inhabitant tax credit will also be extended for one and a half years.

(2) Tax exemption for housing acquisition funds

A temporary measure to exempt a gift of housing acquisition funds from lineal ascendants (i.e. parents or grandparents) of the donee which is due to expire at the end of 2014 will be extended until June 2019, and the maximum amount of tax exemption will be amended as follows:

[Housing acquisition subject to consumption tax rate of 10%]

Period for conclusion of a contract of housing acquisition	Good quality houses(*)	Other than the left
From 1 October 2016 to 30 September 2017	JPY30 million	JPY25 million
From 1 October 2017 to 30 September 2018	JPY15 million	JPY10 million
From 1 October 2018 to 30 June 2019	JPY12 million	JPY7 million

[Other than the above]

Period for conclusion of a contract of housing acquisition	Good quality houses(*)	Other than the left
Until 31 December 2014 (current tax law)	JPY10 million	JPY5 million
From 1 January 2015 to 31 December 2015	JPY15 million	JPY10 million
From 1 January 2016 to 30 September 2017	JPY12 million	JPY7 million
From 1 October 2017 to 30 September 2018	JPY10 million	JPY5 million
From 1 October 2018 to 30 June 2019	JPY8 million	JPY3 million

(*) Energy-saving or earthquake-resistant houses meeting certain criteria

4. Other Amendments

(1) Tax exemption for education funds

When lineal ascendants (i.e. parents or grandparents) of the donee (under 30 years old) create a trust with a financial institution and contribute money as education funds of up to JPY15 million during the period from 1 April 2013 to 31 December 2015, such funds will be exempt from gift tax. This temporary measure will be extended until 31 March 2019.

In addition, the scope of eligible education expenses will be expanded to include student commuter tickets and travel expenses for overseas study, etc.

(2) Tax exemption for marriage or child-rearing funds (New)

In order to support young people in their marriage, childbirth and child-rearing, a temporary measure to exempt from gift tax a gift of funds spent for such events will be introduced. An outline of the measure is as follows:

Gift of marriage or child-rearing funds(*) from a person to their child or grandchild (donee)	The gift will be exempt subject to the following conditions: • Lineal ascendants of the donee (20 years old or over but under 50) create a trust with a financial institution and contribute money as marriage or child-rearing funds. • The maximum contribution for each donee: JPY10 million (JPY3 million for contributions where the donee will make payments for their marriage) • Eligible period for contribution: From 1 April 2015 to 31 March 2019 • The donee submits a report on the non-taxable marriage or child-rearing funds to the competent tax office.

⇓

Withdrawals of the marriage or child-rearing funds	• The donee submits evidence of payments of marriage or child-rearing expenses to the financial institution. • The financial institution confirms the evidence, makes records and keeps the documents.

⇓

When the donee reaches 50 years old	• The financial institution submits a report including the original contributed amount and the withdrawn amount. • The remaining balance will be taxed, if any.

(*) Marriage or child-rearing funds include wedding expenses, housing expenses, moving costs, conception and birth expenses, medical payments for children and childcare costs.

(3) Hometown contribution program

The hometown contribution program under which the amount of donations made to any local government in excess of JPY2,000 is creditable against income tax and inhabitant tax up to a certain creditable limit will be amended as follows:

(a) Expansion of creditable limit

	Current tax law	Proposal
Calculation of creditable amount (outline)	• Income tax (deductible amount): Donations to local governments - JPY2,000 • Inhabitant tax (basic tax credit): (Donations to local governments - JPY2,000) x 10% • Inhabitant tax (additional tax credit): Whichever is the smaller of (i) or (ii) (i) (Donations to local governments - JPY2,000) x (100% - 10% (basic tax credit) - marginal income tax rate for the individual(*)) (ii) Inhabitant tax before tax credits x 10%	• Income tax: the same as the left • Inhabitant tax (basic tax credit): the same as the left • Inhabitant tax (additional tax credit): Whichever is the smaller of (i) or (ii) (i) (Donations to local governments - JPY2,000) x (100% - 10% (basic tax credit) - marginal income tax rate for the individual(*)) (ii) Inhabitant tax before tax credits x <u>20%</u>

(*) Total rate of income tax rate applicable to the individual and special reconstruction income tax rate

This amendment will be applied from the 2016 local income tax year (tax on 2015 income).

(b) Simplification of tax filing procedures

As the special measure for the current hometown contribution program requires taxpayers to file a final income tax return, the 'one-stop hometown contribution program' will be introduced so that employment income earners with no obligations to file their income tax return will be able to take tax credits for their donations without filing tax returns (only when donations are made to five or less local governments).

This new program will be applied to donations made on or after 1 April 2015.

(4) Amendments to dependent deduction, etc. for family members living overseas

When a resident taxpayer applies the following income deductions for non resident family members, submission or presentation of documents proving family members and documents for money transfers will be required.

<table>
<tr><th></th><th>Income deductions</th><th>Documents required(*)</th></tr>
<tr><td>Filing final income tax returns</td><td>Dependent deduction
Spouse deduction
Disabled person deduction
Special spouse deduction</td><td>Documents proving family members and documents for money transfers</td></tr>
<tr><td>Compensation subject to withholding tax</td><td rowspan="2">Dependent deduction
Spouse deduction
Disabled person deduction</td><td>Documents proving family members</td></tr>
<tr><td rowspan="2">Year-end adjustment of income tax on compensation</td><td>Documents for money transfers</td></tr>
<tr><td>Special spouse deduction</td><td>Documents proving family members and documents for money transfers</td></tr>
</table>

(*) Translations of these documents will be required if they are prepared in foreign languages.

This amendment will be applied to compensation paid on or after 1 January 2016 and income tax from 2016.

(5) 'Statement of Assets/Liabilities'

If an individual has an obligation to lodge their income tax return and their total income exceeds JPY20 million for a calendar year, the individual must submit a 'Statement of Assets/Liabilities' together with their income tax return to declare the type, number and value of assets and amount of liabilities as of the end of the calendar year.

This 'Statement of Assets/Liabilities' will be amended as follows:

	Current tax law	Proposal
Criterion for submission	Total income exceeds JPY20 million for a calendar year	When meeting the following two criteria: (a) Total income exceeds JPY20 million for a calendar year (b) Total value of assets as of the end of a calendar year is JPY300 million or more or Total value of 'financial assets' defined in '1. Introduction of Exit Tax' as of the end of a calendar year is JPY100 million or more.
Items to be declared	Type, number and value of assets	The same items to be declared in 'Statement of Overseas Assets' including the following will be required to be declared: • Location of the assets • Name and acquisition cost of securities

In addition to the above, special measures in relation to penalty taxes for individual income tax and inheritance tax purposes will be introduced to encourage people to accurately declare their income/inherited property in their income tax/inheritance tax returns.

These amendments will be applicable to 'Statement of Assets/Liabilities' to be submitted on or after 1 January 2016.

VI. Improvements in Tax Administration Matters

Revisions to the Scanned Tax-Related Document Storage System

Under the Electronic Storage Act, certain tax-related documents are allowed to be preserved electronically by scanning paper documents upon approval. The scope of the eligible documents will be expanded as follows:

<table>
<tr><th colspan="2" rowspan="2">Type of tax-related documents</th><th colspan="2">Storing scanned documents</th></tr>
<tr><th>Current tax law</th><th>Proposal</th></tr>
<tr><td colspan="2">Account books, financial statements, etc.</td><td rowspan="2">Not eligible</td><td>Not eligible</td></tr>
<tr><td rowspan="2">Contracts, receipts</td><td>JPY30,000 or more</td><td rowspan="3">Eligible
(only where a taxpayer establishes appropriate administrative processing)</td></tr>
<tr><td>Less than JPY30,000</td><td rowspan="3">Eligible</td></tr>
<tr><td colspan="2">Bills, delivery slips, etc.</td></tr>
<tr><td colspan="2">Quotations, order sheets, etc.</td><td>Eligible</td></tr>
</table>

Note that other amendments to relax conditions for storing tax-related documents by scanning (e.g. abolishment of the requirements for electronic signatures) are also proposed.

The above amendments will be applied to applications for the scanned tax-related document storage system to be made on or after 30 September 2015.

KPMG Tax Corporation

Izumi Garden Tower,
1-6-1 Roppongi, Minato-ku,
Tokyo 106-6012
TEL : +81 (3) 6229 8000
FAX : +81 (3) 5575 0766

Osaka Nakanoshima Building 15F,
2-2-2 Nakanoshima, Kita-ku,
Osaka 530-0005
TEL :+81 (6) 4708 5150
FAX :+81 (6) 4706 3881

Nagoya Lucent Tower 30F,
6-1 Ushijima-cho, Nishi-ku,
Nagoya 451-6030
TEL : +81 (52) 569 5420
FAX : +81 (52) 551 0580

www.kpmg.com/jp/tax
info-tax@jp.kpmg.com