



KPMG Tax Corporation  
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## KPMG Tax e-Tax News

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### TAX UPDATES

#### 2014 TAX REFORM

The 2014 tax reform bill was passed by the Diet on 20 March 2014, and the amended tax laws were promulgated on 31 March 2014.

Accordingly, the Special Reconstruction Corporation Tax was abolished a year ahead of the original schedule and the effective corporate tax rate will be reduced from 38.01 percent to 35.64 percent for fiscal years beginning on or after 1 April 2014.

(Note that the above effective tax rates are calculated using Tokyo tax rates currently applied to a company whose paid-in capital is over JPY100 million.)

The main items amended/introduced under the 2014 tax reform are as follows:

#### Corporation Tax

- Reduction in Effective Corporate Tax Rate (abolition of Special Reconstruction Corporation Tax)
- Tax Credits for Salary Growth (relaxation of the conditions)
- Special Measures for Promotion of Investment in Productivity Improvement Facilities (newly introduced regime)
- Tax Incentives for Investment in Facilities by Small and Medium-sized Companies (extension and expansion of the incentives)
- Tax Credits for R&D Costs (extension and expansion of the additional tax credits)
- Tax Measures to Promote Business Restructuring (newly introduced regime)

- Tax Measure to Promote Investment into Business Ventures (newly introduced regime)
- Entertainment Expenses (increase in deductible amount)
- Special Measures for National Strategic Economic Growth Areas (newly introduced regime)
- Tax Amendments as a consequence of the Amendments to the Companies Act (deductible directors' compensation/deemed dividends in the case of share consolidations)
- J-REITs (relaxation of one of the tax qualifying requirements (90 percent test) for goodwill amortization)
- Transfer Pricing (inclusion of service transactions through unrelated parties in transactions subject to the transfer pricing regime)

### Local Taxes Imposed on Companies

- Reduction in Inhabitant Tax Rates and Introduction of Local Corporation Tax
- Amendments to Tax Rates for Business Tax and Special Local Corporation Tax

### Change of International Taxation Principle

- Change from the Entire income Principle to the Attributable Income Principle
- Adoption of the Authorised OECD Approach for the Calculation of Income Attributable to a Permanent Establishment

### Income Tax

- Employment Income Deduction (gradual decreases in the maximum deductible amount)
- Transfers of Stock Options to the Issuing Company (restriction of preferential tax treatment)
- Amendment to Deduction for Casualty Losses
- Expansion of the Scope of 'Assets Not Necessary for Daily Life'

### Consumption Tax

- Simplified Calculation Method (decrease in deemed purchase rates for certain types of business)
- Calculation of the Taxable Revenue Ratio (change to treatment of transfers of monetary claims)

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The following back issues of the [\*\*KPMG Japan tax newsletter\*\*](#) include more details of the above items:

- [Increase in the Consumption Tax Rate and Outline of Tax Reform Proposal to Stimulate Business Investment](#) (4 October 2013)

- [Outline of the 2014 Tax Reform Proposals](#) (17 December 2013)

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