

Recent Development: Proposed Reform to the Taxation of Capital Gain of Stocks

(main points)

Below is an outline of a bill reforming taxation of stocks that was submitted to the Diet (Extraordinary Session) on 30 October 2001.

I. Review on Separate Taxation by Tax Return

- (1) Abolish separate taxation at source by withholding by end Calendar Year (CY) 2002.
- (2) Tax cuts for taxation of capital gain of listed stocks* by tax return:
Tax rate will be reduced to 20% (15% national and 5% local) from current 26% (20% national, 6% local). (Applicable from CY 2003)
*In this outline, listed stocks include, for example, stocks traded at over-the counter markets.
- (3) Introduce carryover of capital loss for three years. (Applicable from CY 2003)

NB. Cost of stocks sold between CY2003 and CY2010 and purchased before 1 October 2001 may be deemed to be 80% of the price of such stocks on 1 October 2001.

II. Special Treatments for Long-Term (1year) Capital Gain of Listed Stocks

- (4) A special reduced tax rate of 10% (national 7%, local 3%) will be applied for sale of listed stocks between CY2003 to CY2005.
- (5) Extend the application of special tax exemption for small - long-term - capital gain (up to Y1Million) of listed stocks until end CY 2005 (currently end March 2003).

III. An Emergency Special Tax Treatment

- (6) As an emergency measure, capital gain of listed stocks purchased by individuals between the effective date (promulgation of this reform) and end CY2002 (up to Y10 million of total purchase cost), held between CY2003 and CY2004, and sold between CY2005 and CY2007 will be exempt from tax.

CY2001	2002	2003	2004	2005	2006	2007	CY2008-
--------	------	------	------	------	------	------	---------

(1) Separate Taxation
at Source by W/H

(2) Tax Rates Cuts
20%: 15(N), 5(L)
(4) Long Term CG
10%: 7(N), 3(L)

(3) Carry-Over of
Losses

(5) Small (Y1M)
-Long-Term-CG

(6) Exempt from Tax
(Emergency measure)

