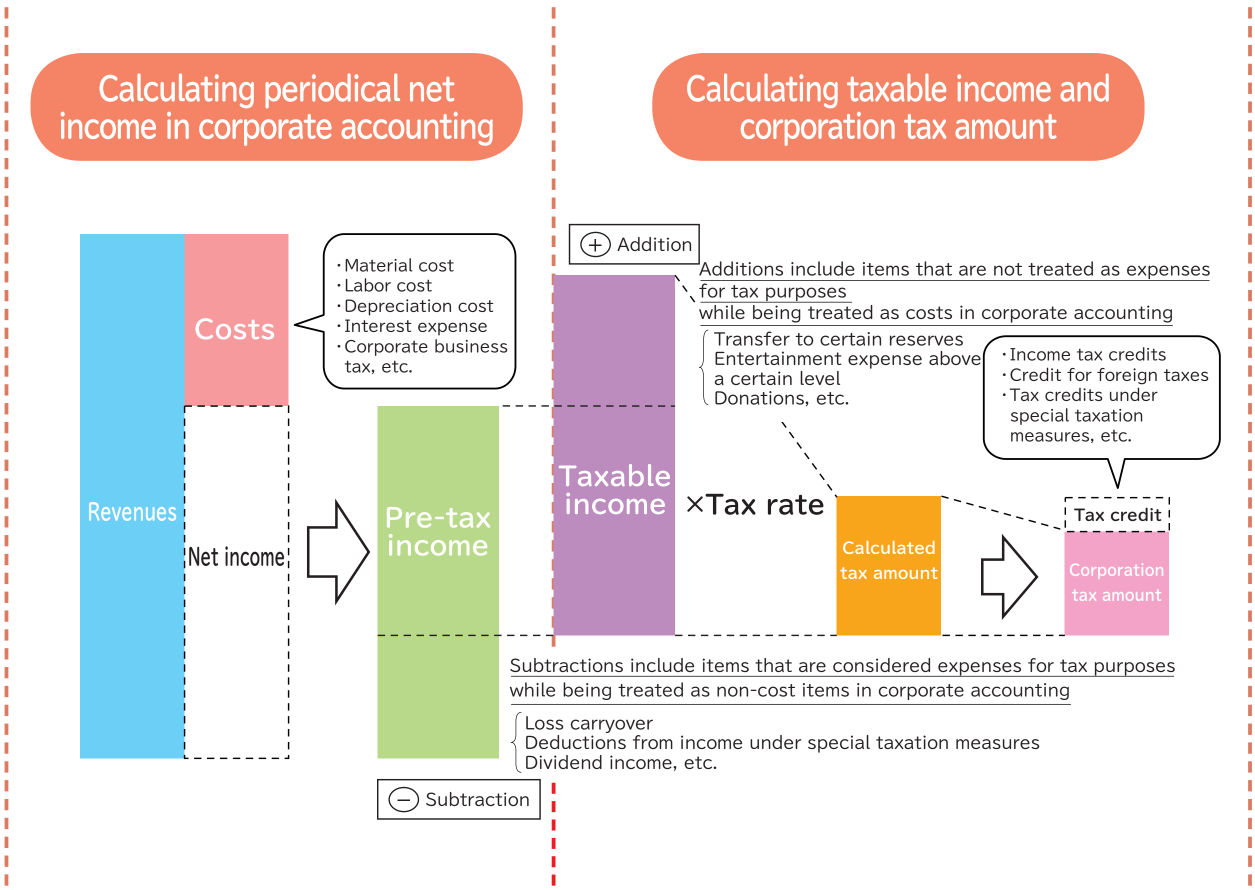
6 Learn about “Corporation Tax”

1 Corporation Tax

The corporation tax is levied on net income earnings of their business operations. **Taxable income** of corporations is determined by subtracting **costs** from **gross revenues. Gross revenues** include income from sales of goods, services, lands, and buildings, etc. **Costs** include sales costs and losses from disasters, etc. (In practice, in order to determine taxable income, corporate accounting-based pre-tax income is subject to additions and subtractions (called tax adjustments) based on the Corporation Tax Act.)

Corporation tax amount is calculated by multiplying **taxable income** by the **tax rate** and subtracting **tax credits**.

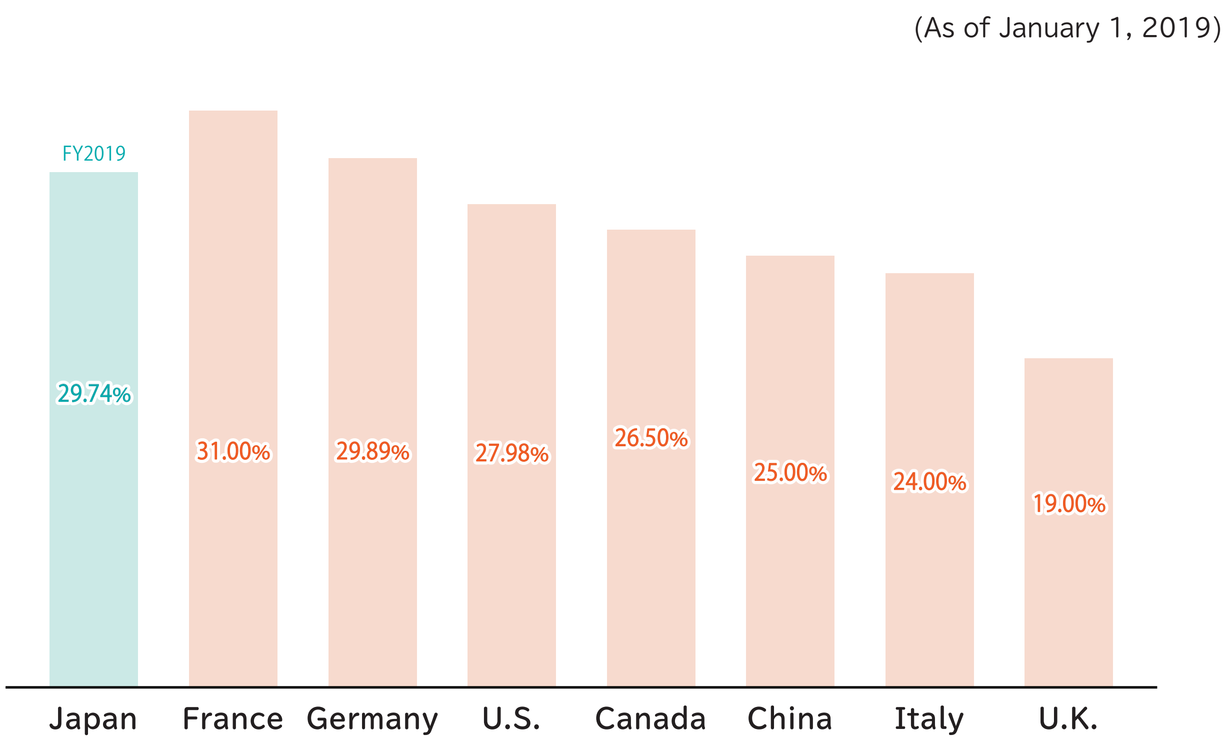


2 Growth-oriented Corporation Tax Reform

The corporation tax reform was carried out based on the idea of "**expanding the tax base (range of subject of taxation) while reducing the tax rate**". By reforming the structure so the burdens of corporation tax are shared more broadly and reducing the tax burdens on companies, etc. that have earning power, the reform aims to encourage companies to invest more proactively in the **enhancement of their profit-earning capacity** and the shift to the business structure that allows continuous and proactive **wage hikes**.

The growth-oriented corporation tax reform started in FY2015 and in its second year FY2016 tax reform, the objective to achieve "**the percentage level of the effective tax rate to the twenties**" was ensured.

International Comparison of Effective Corporation Tax Rates



(Note1) Tax rates are those (combining national and local taxes) imposed on corporate income. Local tax rates represent the standard rate for Japan, the Californian rate for the United States, the national average for Germany and the Ontario rate for Canada. In France, tax rate of 28% applies to the portion of the taxable income of 500,000 euro or below. If part of tax on corporate income is transferred to costs, rates after such adjustment are posted.
(Note 2) The tax rate for Japan has been gradually reduced from FY2015, from 37.00% (before the reform) to 32.11% (FY2015), 29.97% (FY2016 and FY2017), and to 29.74% (FY2018 and onwards).
(Note3) The tax rate for France will be decreased gradually from FY2018 and will reach 25% in FY2022. The tax rate for U.K. will decreased 17% in FY2020.
(Source) Relevant government documents