

FY2012 Tax Reform (Main Points)

Ministry of Finance

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(Provisional translation)

In light of basic perspectives underlying the FY2010 and FY2011 Tax Reforms and the Comprehensive Reform of the Tax System, the government will reform tax system with a central focus on (a) taxation measures towards realizing the New Growth Strategy, (b) efforts towards ensuring equity of taxation and promoting fairness of taxation, (c) local tax reform towards substantiating local taxes and establishing local autonomy, and (d) continuation of considering the measures in the FY2011 tax reform.

Individual income taxation

- The government will set the upper limit on employment income deduction (JPY 2.45 million) for those who earn employment income more than JPY 15 million.
- The scope of expenses allowed for specific expenses deduction will be expanded to cover wider range of expenses so that employees have more opportunity to claim actual expenses for deduction.
 - the following expenses will be added to the scope of specific expenses deduction: expenses for obtaining certain qualifications including attorneys, CPAs, tax accountants and business expenses. (i.e. expenses for books and cloths and social expenses)
 - the specific expenses deduction can be claimed if the sum of expenses exceeding 50% (instead of 100% at present) of the amount of the employment income deduction.
- The income deduction applied to retirement allowance will be abolished for short-term executives (whose term is 5 years or below).

Property taxation

(Inheritance Tax and Gift Tax)

- The government will expand and extend non-taxable treatment of gift tax for the purchase of residential housing, from the standpoint of early transferring assets to young generations or building up high-quality housing stock which are earthquake-resistant and energy-saving.
 - special purposes (for funding earthquake-resistant and energy-saving housing)
JPY 15 million in 2012, JPY 12 million in 2013 and JPY 10 million in 2014
 - other purposes
JPY 10 million in 2012, JPY 7 million in 2013 and JPY 5 million in 2014

- Tax scheme to postpone the payment of inheritance tax for forests will be established.
- Joint and several tax obligations of inheritance tax will be mitigated.

(Fixed Property Tax and Urban Planning Tax)

- In order to support reconstruction responding to the nuclear disaster, the government will continue the measures introduced by the Act on Special Measures for Reconstruction and Rehabilitation of Fukushima for the time being.
 - exemption of fixed property tax for lands and houses in evacuation zones
 - reduction of fixed property tax for three years in evacuation deactivation zones
- Reduction of fixed property tax for new housing will be extended for two years.
- Taxation measures adjusting burdens of fixed property tax regarding lands will be extended for three years in principle. In addition, special measures for residential lands (ex. “one–sixth” special Proportion) will be continued. However, from the standpoint of mitigating inequity, the above measures will be abolished in FY2014 after taking transitional measures.

Corporate income taxation

- The government will extend special treatment of R&D tax credit, which otherwise will be expired at the end of FY2011, for two years.
- The government will enhance a tax credit for promoting environmental investment by introducing immediate depreciation for solar panels and wind electricity equipments
- Reserve for overseas investment loss system will be extended for two years in order to secure resources stably.
- In order to support SMEs, the government will take measures to broaden the range of qualified assets for tax credits, including testing equipments with the aim of promoting SMEs ‘ investment and to extend the credit for two years.
- In order to support reconstruction responding to the nuclear disaster. the government will take tax measures following the introduction of the Act on Special Measures for Fukushima Reconstruction and Rehabilitation.
 - special treatment of tax system of special zone for reconstruction (ex. measures to allow all of local government in Fukushima prefecture to establish Reconstruction Industry Cluster Zone where special taxation measure is applied.)

- introduction of tax credit for corporations in evacuation deactivation zones employing the people affected by the disaster.
- Tonnage tax system will be enhanced in the FY2013 tax reform on the premise of the amendment of the Act on Maritime Transportation.

Taxes for environmental policies

- With respect to motor vehicle tonnage tax,
 - standard tax rates will be applied from May 1, 2012 to such vehicles that satisfy certain conditions relating to environmental performance such as fuel consumption at the time of the supply of motor vehicle inspection certificates. These conditions could be changed depending on the shift of environmental standards (FY2015 environmental standards are now applicable.) Also, provisional tax rate applied to other vehicles will be reduced with the exception of vehicles used for more than 13 years.
 - taking into account the view of promotion of global warming countermeasures and maintenance and promotion of technical superiority in automotive industry, the government will change environmental standards of “eco-car tax cut”, and extend automobile tonnage tax for three years by April 2015, extending reduction measures for vehicles with high environmental performance.
- Regarding motor vehicle acquisition tax, the government will extend “eco-car tax cut” for three years by March 2015, changing its environmental standard and focusing on vehicles with high environmental performance.
- The government will introduce “Carbon Dioxide Tax of Global Warming Countermeasure” with the aim of controlling the emission of energy-originated CO₂ which accounts for about 90% of greenhouse gas causing global warming.
 The government will add the following tax rates corresponding to the amount of CO₂ emission on the petroleum and coal tax on fossil fuel.
 Added tax rate: – crude oil, petroleum products: JPY 760/kl (at present: JPY 2,040/kl)
 – gaseous hydrocarbons: JPY 780/t (at present: JPY 1,080/t)
 – coal: JPY 670/t (at present: JPY 700/t)
 These tax rates will be in force on October 1, 2012. Necessary interim measures will be taken until March 31, FY2016.

International Taxation

- Having signed the Convention on Mutual Administrative Assistance in Tax Matters (CMAA) November 2011, the legislation concerning mutual assistance in tax collection will be reviewed as necessary for the ratification of the CMAA and other conventions.
- A new reporting requirement will be introduced for those individual residents who hold overseas assets of more than JPY 50 million in aggregate value to file annual reports of those assets with the tax authority.
- With a view to preventing tax avoidance by excessive interest payments, the amount of net interest paid to affiliated persons exceeding 50% of adjusted income will not be deducted in the financial year.

Tax Treatment for Okinawa

- The government will enhance income deduction (ex. increase of income deduction rate) in special zones and establish special zones regarding international logistics, promotion of the formation of tourist sites, and industry innovation.
- The government will introduce special income deduction of 50 millions for capital gains derived from the transfer of the land provided for use by United States Forces in Japan to a local government.
- The government will enhance and extend special measures of the petroleum and coal tax, aviation fuel tax and gasoline tax.

Promoting Government Decentralization and Local taxation systems

- The government will introduce special tax measures of local taxation systems,
 - local governments will be able to determine by local ordinance the extent of the reduction of tax base within the limit set by the national law.