

## FY2014 Tax Reform(Main Points)

(Ministry of Finance

Cabinet Decision

December 24, 2013)

The government has decided on a tax reduction for promoting investment ,etc. and expansion and improvement for of tax measures for promoting the expansion of income in its “Raising the National and Local Consumption Tax Rates and Associated Responses” (Cabinet decision on October 1, 2013). From the perspective of considering economic situation, the government will take additional tax measures, such as the abolition of the special corporate tax for reconstruction one year ahead of schedule, and tax measures for expanding private investment and consumption, and tax measures for vitalizing local economies, with the aim of ending deflation and revitalization. In order to steadily implement comprehensive tax reform, the government will take necessary measures concerning income tax, corporation tax, automobile taxation, etc. Furthermore, tax measures for supporting reconstruction from the earthquake will be implemented.

### I. Matters decided in “Raising the National and Local Consumption Tax Rates and Associated Responses”

#### Activation of private investment

- Introduction of tax measures for promoting investment in facilities to improve productivity
  - Introduction of a system under which immediate depreciation or a tax credit is permitted for investment in facilities that will contribute to improving productivity
- Expanding measures for the R&D tax credit
  - Three-year extension of the additional measure (of the incremental or high-level type) for the R&D tax credit, and reorganization of the incremental type measures into a mechanism in which the deductible rates for tax credits increase depending on their rates of increase of experiment and research expenditures (deductible rate: 5%⇒5–30%)

#### Measures for SMEs

- Introduction of tax measures for promoting investment in facilities to improve productivity (mentioned above)
- Expansion of investment promotion tax measures for SMEs
  - When a company acquires facilities to improve productivity, immediate depreciation or a 7% tax credit (or a 10% tax credit for companies whose amount of stated capital is 30 million yen or less) will be permitted.

### Promotion of investment in venture business by private companies, etc.

- Introduction of tax measures for promoting venture investment
  - When a company makes investments in venture companies in a period of expanding business through venture funds, it will be permitted to include a book reserve for investment losses in deductible expenses (inclusion of losses of 80% of the investments).

### Promotion of business reforms aimed at dramatically improve profitability

- Introduction of tax measures to promote business reorganization
  - When multiple companies conduct business reorganization by integrating management resources, it will be permitted to include a book reserve for capital and loan losses in deductible expenses (inclusion of losses of 70% of the capital and loans)

### Measures for improving institutional and regulatory environments that contribute to investment on facilities

- Introduction of tax measures to promote investment in seismic retrofitting of existing buildings (25% special depreciation)

### Expansion of income

- Enhancement of tax measures for promoting expansion of income
  - Revision of requirement of employee paying remuneration growth rate (Current 5% increase ⇒ FY 2013, 2014; 2% or more, FY 2015; 3% or more, FY 2016, 2017; 5% or more)
  - Revision of requirements of average paying remuneration (average salary of all employees → average salary of continuous employees)

## II. Matters decided in addition to I. above

### Individual income taxation

- Revision of the deduction for employment income
  - Reduce the amount of employment income to which an upper limit on the deduction is applied from the current amount of JPY 15 million (upper limit: JPY 2.45 million) to JPY 12 million (JPY 2.3 million in 2016) and to JPY 10 million (JPY 2.2 million) in 2017.
- Improvement of NISA's usability
  - Allow users to switch their NISA accounts to a different financial institution every year, as well as reopen their NISA accounts when the accounts are closed.

### Property taxation

- Tax measures for supporting reconstruction
  - As for the areas severely damaged by the tsunami during the Great East Japan

Earthquake, extend the period of current tax measures to allow a special exemption of fixed property tax on land and buildings in the areas designated by municipal mayor for an additional year.

○Measures for alleviating tax burden, etc.

- Introduce special measures concerning tax bases for fixed property tax on certain facilities, etc. used for R&D in the medical field, out of the core businesses under the National Strategic Special Zones Act (1/2 for three years)

### Corporate income taxation

○Abolishment of the special corporate tax for reconstruction one year ahead of schedule

○Expansion of private investment and consumption

- Extend the period for applying taxation on social and entertainment expenses for two years and companies will be allowed to include 50% of their expenses for food and drinks in deductible expenses.

(Note) SMEs may choose either of this tax break and the current lump sum deduction of JPY 8 million.

○ National Strategic Special Zones

- Introduce a system under which special depreciation (or immediate depreciation for certain machinery, etc. for core business) or a tax credit is allowed when a company acquires machinery, etc. in a National Strategic Special Zone, and apply special provisions for an R&D tax credit (special experiments and research expenditures).

○Adjustment of uneven local corporation tax

- Transfer a part of the corporate inhabitant tax on a corporation tax basis to national tax revenue (reduce the tax rate of corporate inhabitant tax on a corporation tax basis and introduce local corporation tax (provisional name)).
- Reduce the tax rate of special local corporation tax and raise the tax rate of corporation business tax (limited to portions on an income basis and a revenue basis).

○Taxation for reconstruction support

- Extend the period for applying measures allowing immediate depreciation when a company acquires machinery, etc. in a Reconstruction Industry Cluster Zone for two years.

### Taxation on consumption

○Revision of taxation on automobiles

- Motor vehicle tonnage tax
  - Expansion of ‘eco-car tax cut’ and revision of taxation on old cars
- Automobile acquisition tax
  - Reduction of tax rates (registered vehicles 5%→3%; light motor vehicles 3%→2%) and expansion of tax breaks for ‘eco-car tax cut’

- Automobile tax
  - Expansion of the special measures for greening of automobile taxes
- Light vehicle tax
  - Raising of tax rates for new four-wheel and three-wheel vehicles purchased in or after FY2015
  - Introduction of increased taxes for old vehicles (FY2016–)
  - Raising of tax rates for motorbikes and small two-wheel vehicles, etc. (FY2015–)
- Revision of the tax exemption system for foreign travelers from consumption tax
  - Expansion of tax-free items to include consumables, such as food, drinks and cosmetics
  - More flexibility allowed for forms of records and simplification of procedures

### International taxation

- Revision of principles in international taxation (change from “entire income principle” to “attributable income principle”)

### Measures to facilitate tax payment

- Revision of tax scheme to postpone the payment (introduction of grace periods for asset conversion based on taxpayers’ applications, etc.)
- Revision of the tax accountant system (reconsideration of duties and acquisition of qualification of tax accountants)

### Tariffs

- Extension of the period for applying temporary rates and expansion of the coverage of the tariff reduction and exemption system
- Speeding up of customs clearance procedures (expansion of the scope of applying simplified rates on small packages (goods costing 100,000 yen or less → goods costing 200,000 yen or less))