

Corporation Tax System Reforms to Date (1)

FY2013
reform

- **Drastic policy-based tax measures to promote capital investment and wage hikes**
 - Creating a tax system for promoting investment in production equipment (→ *abolished in 2015*)
 - Enhancement of the R&D tax system (total spending-based tax credit)
 - Creating a tax system for promoting expansion of income

FY2014
reform

- **Abolition of special corporate tax for reconstruction one year ahead of schedule**

<Effective corporate tax rate> 37.00% → 34.62% in 2014

- **Drastic policy-based tax measures to promote capital investment and wage hikes**

- Creating a tax system for promoting investment in equipment for improving productivity (→ *scaled down in 2016 and abolished in 2017 (revised in 2016)*)
- Enhancement of the R&D tax system (additional spending-based tax credit rate)
- Enhancement of the tax system for promoting expansion of income

FY2015
reform

- **Growth-oriented corporate tax reform: 1st year**

<Effective corporate tax rate> 34.62% in 2014 → 32.11% in 2015 (→ 31.33% in 2016)

<Expansion of the tax base>

- Review of deduction for carry-over of losses (large companies)
- Review of the exclusion of dividends received from gross revenue
- Expansion of pro forma standard taxation for corporate enterprise tax (large companies)
- Review of special taxation measures (prioritizing the R&D tax system (total spending-based tax credit rate), abolishing the tax system for promoting investment in production equipment)

<Consideration to wage hikes>

- Tax reductions in 2015 and 2016
- Enhancement of the tax system for promoting expansion of income
- Creating a local tax system for promoting expansion of income (corporate enterprise tax)

FY2016
reform

- **Growth-oriented corporate tax reform: 2nd year**

<Effective corporate tax rate> 32.11% in 2015 → 29.97% in 2016 (→ 29.74% in 2018)

<Expansion of the tax base>

- Review of special taxation measures (review of the tax system for promoting investment in equipment for improving productivity (→ *scaled down in 2016 and abolished in 2017*))
- Review of the method of depreciation (the straight-line method was adopted as a uniform depreciation method for building accessories and structures)
- Further expansion of pro forma standard taxation for corporate enterprise tax (large companies)
 - * Due consideration given to the impact on medium-sized companies (mitigation of radical change)
- Further review of deduction for carry-over of losses (large companies)
 - * Leveling the impact of acceleration of reform on corporate management

Corporation Tax System Reforms to Date (2)

FY2017
reform

○ **Policy-based tax measures to promote R&D investment and wage hikes and to support SMEs**

- Revision of the R&D tax system (revision of the total spending-based tax credit rate and abolition of the additional spending-based tax credit rate)
- Creating a tax system for promoting business investment for regional core companies

FY2018
reform

○ **Policy-based tax measures to spur sustainable wage hikes and capital investment for improving productivity**

- Revision of the tax system for promoting expansion of income (establishment of a tax system related to the promotion of wage hikes and investment for large companies)
- Creating a tax system to promote high quality investment (→ *abolished in 2020*)
- Revising requirements for special tax measures (including non-applicable measures for the R&D tax system for large companies)

FY2019
reform

○ **Policy-based tax measures to promote innovation and to support SMEs**

- Revision of the R&D tax system (enhancement of the open innovation activity-based tax credit, revision of the rate of the volume-based tax credit, integration of the high R&D intensity tax credit into the volume-based tax credit)
- Creating tax measures related to capital investment for proactive measures against disasters for SMEs

FY2020
reform

○ **Tax system for spurring efforts made for strengthening innovation**

- Creating tax measures to promote open-innovation activities (for new investment)
- Creating tax measures to promote 5G-related equipment installation (→ *abolished in 2025*)

○ **Revision of consolidated taxation system (Shift to group aggregation system)**

COVID-19
economic
measures

○ **Urgent tax measures for taxpayers in difficult situations**

- Special exception for a refund by carrying back loss to medium-sized enterprises (corporations with a capital of more than 100 million yen and less than one billion yen)
- A capital investment tax system for small and medium-sized enterprises for telework, etc. (a new type to be added to the tax system for strengthening the management of small and medium-sized enterprises)

Corporation Tax System Reforms to Date (3)

FY2021
reform

- **Policy tax system to transform the economic structure toward the post-COVID era and realize a virtuous cycle**
 - Creating tax measures to promote digital transformation investment (→ *abolished in 2025*)
 - Creating tax measures to promote investment for carbon neutrality
 - Revision of the R&D tax system (including a raise of the deduction limit for the general type [the former total amount type] and a review of the deduction rate)
 - Revision of the tax system related to the promotion of wage hikes and investment for large companies (reorganization to a tax system for promotion of activities to secure human resources)
 - Creating a special deduction limit for loss carryforwards
 - Creating tax measures to encourage business restructuring (stock-consideration mergers and acquisitions (M&A) and small and medium-sized enterprise M&A)

FY2022
reform

- **Policy tax system for realizing a virtuous cycle of growth and distribution (1)**
 - Drastic reinforcement of the tax system aimed at wage hikes (reorganization into a tax system to promote wage hikes)
 - Review of tax measures to promote 5G-related equipment installation (requirements for eligible equipment, tax deduction rate, etc.)

FY2023
reform

- **Policy tax system for realizing a virtuous cycle of growth and distribution (2)**
 - Review of the R&D tax system (review of the deduction rate, introduction of a system under which the maximum amount of tax fluctuates)
 - Promotion of pioneering investment in human resources by companies
 - Enhancement of tax measure to promote open-innovation activities (addition of acquisition of existing stocks)

FY2024
reform

- **Policy tax system for realizing structural wage hikes and promoting domestic investment aimed at enhancing productivity and strengthening supply capacity**
 - Strengthening the tax system to promote wage hikes (e.g., review of the tax credit rate, creation of measures for mid-sized enterprises, creation of a tax credit carryover system as a measure for SMEs)
 - Creating a tax credit for promoting domestic production of strategic goods
 - Creating a tax incentive called "innovation box"

Corporation Tax System Reforms to Date (4)

FY2025
reform

○ Regional revitalization and realization of vigorous regional economies

- Expanding the Tax Incentive for SME Business Enhancement for SMEs aiming to achieve sales of over 10 billion yen (add buildings to the eligible assets), in order to create virtuous cycles in the regional economies.
- Maintaining the special corporate tax rate (15%) for SMEs for two years. Simultaneously, revise the treatment of SMEs with extremely high levels of income (e.g., raise the tax rate to 17% for SMEs with annual taxable income of over 1 billion yen).