

## PwC Japan Tax Newsletter

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## Outline of 2008 Tax Reform

The amended tax law was promulgated and effective on April 30, 2008. This issue exclusively deals with the outline of the 2008 Tax Reform.

### Corporate Taxation

- Tax credit for research and development ("R&D") and investments in information security facilities
- Depreciation on fixed assets
- Construction contracts
- Other (Triangular merger, etc.)

### Tax Incentive Plans Applied to Small-medium Sized Company

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- Special tax incentive for information security facilities
- Tax credit for staff training expenses
- Extension of applicable period for various incentive plans

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- Taxation related to dividend income on listed stocks
- Preferential tax treatment on aggregation of profit and loss

### International Taxation

- Bond interest income earned by non-residents or foreign corporations
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### Taxation related to TMK and Investment Corporation

### Inheritance Tax

- Deferral of inheritance tax payment
- Revision of evaluation rulings
- Extension for special treatment under unified gift/inheritance tax

### Other Amendments

- Deduction for contributions
- Local taxes
- Registration tax for transfer of land
- Change of administrative appeal
- Other

## Corporate Taxation

### 1. Tax credit for research and development (“R&D”) and special tax treatments in connection with investments in information security facilities

#### (1) Tax credit for R&D Cost

In order to enhance sustainable economic growth in Japan where there is not much affluent natural resources, it is crucial to provide incentives for innovation to spur future economic growth in Japan. The purpose of the new tax credit for R&D costs is to provide an additional tax credit based on either (i) the increased portion of R&D costs or (ii) the excess R&D costs over 10% of the average sales proceeds (“New Tax Credit on R&D costs”). This is applicable to the fiscal year beginning on or after April 1, 2008.

The New Tax Credit on R&D costs is to be applied in addition to the tax credit before 2008 Tax Reform, the amount of which is based on a percentage of the aggregate R&D costs (“Tax Credit on Aggregate R&D Costs”). As a result of the 2008 Tax Reform, a corporation is able to claim a total combined R&D tax credit up to 30% of the current income tax liabilities.

	Type of tax credit	Previous R&D tax credit	New R&D tax credit
Tax credit	a) Tax credit calculated on gross R&D cost base	8 ~ 10%* of the gross R&D costs * Rate to be applied will depend on the R&D ratio (R&D costs/ average sales)	8 ~ 10%* of the gross R&D costs * Rate to be applied will depend on the R&D ratio (R&D costs/ average sales)
	b) Tax credit calculated on increased R&D cost base (The new credit is applicable for the fiscal years beginning between April 1, 2008 to March 31, 2010)	5% of the excess R&D costs over the annual average of R&D costs for the last three years	Tax credit of i) or ii), as elected by the taxpayer i) 5% of the excess R&D costs over the annual average of R&D costs for the last three years, or ii) excess R&D costs over 10% of the average sales amount x tax credit ratio* * Tax credit ratio = ((R&D costs /average sales) 10%) x 0.2
	c) Joint R&D with the government	12% (less the above (a) R&D ratio) of the specific R&D costs	12% (less the above (a) R&D ratio) of the specific R&D costs
Limitation of the credit amount		20% of the current income tax liabilities	20 % of the current income tax liabilities for a) and c) 10% of the current income liabilities for b)

The threshold for the New Tax Credit on R&D Costs is limited to 10% of the annual corporate income tax liability, which is separate from the tax credit limitation on the aggregate R&D Costs and the tax credit for the enhancement of technology for small and medium sized companies (the “Tax Credit on Technology for Small and Medium Sized Companies”).

#### (2) Special tax incentive on investment in information security facilities

In the case of a corporation filing a blue form tax return that acquires information security facilities during the period to March 31, 2008 and uses the facilities for its business in Japan, the corporation will be able to elect to either take (i) a tax credit equal to 10% of the “base acquisition cost” (equal to 70% of

the acquisition cost) of the facilities or (ii) a special allowance for accelerated depreciation equal to 50% of the base acquisition cost of the facilities.

In order to maintain information security and enhance productivity, the current tax incentives, including the tax credit and accelerated depreciation for investments in information technology, is extended for 2 more years, but is revised as follows:

- The scope of information security facilities - currently, the facilities (certificated by ISO15408) as explained in a), b) and c) are qualified for this tax incentive. As a result of the 2008 Tax Reform, d) is also added as a qualified facility:
  - a) OS, including the associated server;
  - b) Database control software, including the associated application software;
  - c) Firewall systems (described as a system that prevents invasions from the outside to the company's computer network); and
  - d) Software linking the information systems between independent divisions and corporations.
- Before the amendment, to be eligible for the above incentives, the total acquisition cost of the facilities in an accounting year must be at least 100 million yen (at least 3 million yen for corporations with capital of 100 million yen or less and at least 30 million yen for corporations with capital of more than 100 million yen and less than or equal to 1,000 million yen). As a result of the 2008 Tax Reform, for companies with share capital or equity of 100 million yen or less, the minimum total acquisition cost for investment in information technology is reduced from 3 million yen to 0.7 million yen.
- Under the 2008 Tax Reform, for companies with share capital or equity exceeding 1 billion yen, the acquisition cost applicable to this tax credit is limited to 20 billion yen.
- It is noted that the special allowance for accelerated depreciation is not applicable to finance lease contracts without transfer of ownership of the leased assets to lessees, but the tax credit is applicable for the finance lease contracts.

(3) Staff training expenses

Before the amendment, a corporation filing a blue form tax return was allowed to report a tax credit against its corporation income tax liability for certain increases in staff training expenses (credit allowed in the year of increase) for its fiscal years starting on or before March 31, 2008.

Under the 2008 Tax Reform, this special tax credit is only available to small and medium sized enterprises (SMEs) and is not available to large corporations after the applicable period expired.

The average training and education expense incurred by SMEs is estimated to be about 0.15% of total labor costs. This special tax credit is calculated using the tax credit rate for Education and Training Costs. The range of the tax credit rate is between 8% and 12%, depending upon the Education and Training Ratio. This is applicable to the fiscal year beginning on and after April 1, 2008.

Corporation	Large corporation	SMEs
Tax credit before the 2008 tax reform	a) 25% of the excess staff training expenses over the average staff training expenses in the previous two years. However, this credit cannot exceed 10% of the current income tax liabilities.	As an alternative to a), a SME is able to elect to calculate the tax credit as explained below, to the extent the staff training expenses have increased over the average staff training expenses in the previous two years: Tax credit = 50% of the increased ratio* times the gross amount of staff training expenses incurred for the year * but does not exceed 20%
The 2008 Tax Reform	Abolished for tax years beginning on or after April 1, 2008.	Tax credit ratio* (8 ~ 12 %) times the gross amount of staff training expenses incurred for the tax year * (e.g. tax credit = 8% + (the Education and Training Ratio – 0.15%) x 40).

## 2. Depreciation on fixed assets

- In addition to eliminating the final depreciable limit (i.e. residual value) under the 2007 Tax Reform, the 2008 Tax Reform revised the statutory depreciable lives mainly for machinery and equipment to make them more consistent with their actual economic useful lives. In addition, the 2008 Tax Reform regrouped some of the statutory depreciable lives into larger categories. These amendments are effective for depreciation (of both existing and newly acquired assets) for fiscal years beginning on or after April 1, 2008.
- With respect to the special treatment in connection with using accelerated statutory depreciable lives, the application and approval process which was necessary to obtain the special treatment is considered to be administrative burdensome. As a result, the 2008 Tax Reform includes to eliminate the additional application and approval process of acquisition of depreciable assets for fiscal year beginning on or after April 1, 2008, as follows:
  - newly acquired assets that are in the same assets in terms of quality of the material or manufacturing process that already received approved for this special treatment, or
  - newly acquired assets as partial replacement for assets that already received approved for this special treatment.

## 3. The 2008 Tax Reform in compliance with the new accounting standards for construction contracts (the “Large Long-Term Contracts”)

The Accounting Standards Board of Japan (ASBJ) released the Accounting Standard for Construction Contracts (Statement No.15) and the Guidance on Accounting Standard for Construction Contracts (Guidance No.18).

The recognition of revenue based on the “construction in progress” method has been permitted for tax purposes to the extent that certain requirements are satisfied. To comply with the new accounting standard and guidelines for construction contracts, such requirements is amended for construction launched on or after April 1, 2008, as follows:

- Before the 2008 tax reform, the “construction in progress” method is forced to apply to “Large Long-Term Contracts” whereby the construction period lasts 2 years or longer and the contracted amount is 5 billion yen or more. The 2008 Tax Reform changed the contract period from 2 years to 1 year and the threshold for the contracted amount is lowered from JPY 5 billion to JPY 1 billion.
- Before the 2008 tax reform, other than the “Large Long-Term Contracts”, construction in progress method was not applicable to contracts which are expected to incur a net loss. Under the 2008 Tax Reform, construction in progress method is also applicable to such contracts with losses.

- “Large Long-Term Contracts” include software projects.
- An allowance for doubtful accounts can be applied for tax purposes to financial receivables recognized under the “construction in progress” method. This amendment is applicable for fiscal year beginning on or after April 1, 2008.

#### 4. Other (Triangular merger, etc.)

In the case where cash is received in lieu of a fractional share as a result of a triangular merger, the 2008 Tax Reform includes to clarify that the shareholder is deemed to receive a fractional share and such payment shall not taint the tax qualified status of the merger.

In the case where cash is received as a result of submitting a claim to the court regarding the fair valuation when the taxpayer disagrees with the allotment of shares received as a result of a mandatory redemption of shares by the issuing company, the 2008 Tax Reform provides that such cash payment will not be treated as a disbursement of cash as consideration for the mandatory redemption. Therefore, such cash payment will not trigger capital gain taxation to the other shareholders.

The above amendment is applicable to merger carried out or resolution for mandatory redemption of share declared on or after April 30, 2008.

### **Tax Incentive Plans Applied to Small-medium Sized Company**

#### 1. Revision of “Angel” tax incentive plan

If individual taxpayers invest in stock of a specific SME described below, the investment up to 10 million yen is subject to contribution deduction and it is deducted from the acquisition cost of the stock.

- The Company is in the first year of its establishment and it is a specified newly established SME; or
- The Company is in the second or third year of its existence and it is a specified newly established SME with negative cash flow from operations in the last fiscal year and the year prior.

These incentive plans are applied to the stock acquired on or after April 1, 2008. The existing special treatment for capital gains applicable to stocks issued by specified SMEs terminates after the transition period.

#### 2. Special tax incentive on investment in information security facilities

The applicable period is extended for 2 years and with following amendment:  
Please refer to Corporate Taxation section 1(2)

#### 3. Tax credit for staff training expenses

Please refer to Corporate Taxation section 1(3)

#### 4. Extension of applicable period

The applicable period for the following tax incentive plans for SMEs is extended for two years up to March 31, 2010.:

- Investment promotion plan for SMEs;
- Deduction of entertainment expenses up to 4 million yen;
- Exemption from the loss-carried-back suspension in the case of SMEs who incur tax net operating losses in the initial five years after establishment; and
- Special treatment for depreciable assets less than 300,000 yen.

## Transfer Pricing Legislation

1. Information to be disclosed on the tax return schedule in connection with transactions with Foreign Affiliated Companies

Additional information related to the Foreign Affiliated Companies, such as the number of employees, retained earnings, and whether an APA has been obtained, will be required to be reported on Schedule 17(3), which is required to be attached to the corporate income tax return.

The above amendment is applicable to the tax return for the year beginning on or after April 30, 2008.

2. Introduction of a deferral of local tax collection in relation to mutual agreement procedures

The tax deferral on transfer pricing assessments, which was introduced in the 2007 Tax Reform, is applicable to local taxes as well. Specifically, in the event that a taxpayer files a request for mutual agreement procedures, the taxpayer can request a deferral of the payment for both corporate inhabitants' taxes and enterprise taxes, subject to collateral being provided. In addition, the taxpayer is exempt from delinquent taxes during the deferral period.

The above amendment is applicable to the request made by tax payer on or after April 30, 2008.

## Tax System on Finance and Corporate Securities

1. Individual taxation related to capital gains on listed stocks

- The existing concessional tax rate of 10% (national 7%, local 3%), which applies to capital gains derived from the disposal of listed stocks, will be abolished on December 31, 2008. Capital gains derived on or after January 1, 2009 will be subject to a tax rate of 20% (national 15%, local 5%).
- A transitional rate of 10% (national 7%, local 3%) will apply to capital gains derived from the disposal of listed stocks up to an annual ceiling of 5 million yen from January 1, 2009 to December 31, 2010 (the "Transitional Period").

2. Taxation related to dividend income on listed stocks

- The existing concessional withholding tax rate of 10% (national 7%, local 3%), which applies to dividend income paid to Japanese resident individuals on listed stocks, will be abolished on December 31, 2008. Dividends paid on or after January 1, 2009 will be subject to a withholding tax rate of 20% (national 15%, local 5%).
- A transitional withholding tax rate of 10% (national 7%, local 3%) will apply to dividend income paid to Japanese resident individuals on listed stocks (except when paid to large shareholder who has a large ownership) during the Transitional Period. However, if the aggregate dividend income paid on listed stocks (except for dividend income on a listed stock where the total annual dividend is 10,000 yen or less) is more than an annual ceiling of 1 million yen, the preferential treatment of filing exemption on dividend income will not apply.
- From January 1, 2009, Japanese resident individuals will be able to elect to be separately taxed at 20% (national 15%, local 5%) on dividend income on listed stocks. Under the separate taxation assessment, withholding tax rate of 10% (national 7%, local 3%) will apply to dividend income paid on listed stocks up to annual ceiling in aggregate of 1 million yen during the Transitional Period.
- The existing concessional withholding tax rate of 7% (national) applies to dividend income paid to domestic corporations, foreign corporations and non-resident individuals without a permanent establishment ("PE") in Japan on listed stocks until March 31, 2009. Dividends paid on or after April 1, 2009 will be subject to a withholding tax rate of 15% (national).

### 3. Preferential tax treatment on aggregation of profit and loss

If Japanese resident individuals incur a capital loss from the disposal of listed stocks in the current year, or in any of the three prior years, such capital loss may offset against dividend income on listed stocks (provided a separate taxation assessment is elected by the taxpayer). The above preferential tax treatment will apply to individual income tax imposed on taxable income from 2009 and inhabitants tax imposed from 2010.

## International Taxation

### 1. Taxation on bond interest income earned by non-residents or foreign corporations

- (1) The definition of Japan sourced income is expanded to cover interest on bonds issued by a foreign corporation which is attributable to a business conducted in Japan by the foreign corporation. This amendment applies to interest on bonds issued on or after May 1, 2008 by the foreign corporation.
- (2) In the case of discount bonds issued outside of Japan by a foreign corporation, where the discount on issuance of the bond is attributable to the business conducted in Japan by the foreign corporation, the profits upon redemption of the bonds are subject to Japanese withholding tax at the rate of 18% at the time of issuance. This amendment applies to the profits upon redemption of bonds issued on or after May 1, 2008.
- (3) The withholding tax exemption for interest on bonds, issued by Japanese corporations outside of Japan and the coupon payment on which is also paid outside of Japan (Minkan Kokugaisai), also applies to bond interest issued from certain foreign corporations. The exemption period is extended for two more years. In addition, the amended withholding tax rule on the interest of Minkan Kokugaisai received by a Japanese resident individual and a domestic corporation applies to Minkan Kokugaisai issued on or after May 1, 2008.

Before the 2008 Tax Reform, if interest on bonds issued by a foreign corporation is attributable to a business conducted in Japan by the foreign corporation, such interest should not be treated as Japan sourced income. Therefore, except where the source of income is changed under the terms of a tax treaty with Japan, such interest should not fall within Japan sourced income and not subject to Japanese withholding tax. The reforms as described in a) and b) above should be introduced to change the above treatment. Under the 2008 Tax Reform as described in c), the special taxation of Minkan Kokugaisai applies to interest on bonds issued by certain foreign corporations; accordingly, these reforms will affect the structuring of various types of asset liquidations or securitizations.

### 2. Taxation with regard to interest income on bond repurchase agreement

The applicable period of the special taxation with regard to interest income on bond repurchase transactions by foreign financial institutions is abolished. This special taxation was introduced as a transitional treatment for two years in the 2002 Tax Reforms to promote bond repurchase transactions between domestic and foreign financial institutions and it was extended until March 31, 2008. However, by the 2008 Tax Reform, the applicable period is abolished and this special taxation is permanently applied.

### 3. Anti-Tax Haven taxation

With regard to controlled foreign corporation ("CFC") rule, which deems the undistributed passive earnings of foreign corporations in low-tax jurisdictions (with an effective rate of 25% or less) as taxable income of Japanese corporation (or Japanese individual) if certain conditions are met, another corporation controlled by directors of a Japanese corporation is now included under the 2008 Tax Reform in the affiliated shareholding group to determine whether the Japanese corporation is subject to CFC rule.

Similar change in definition of affiliated shareholding group is made for the purposes of countermeasure taxation against corporate inversion, which provides that the retained earnings of a shell company is added to the taxable income of Japanese shareholders given that the Japanese shareholder comes to own 80% or more in a Japanese corporation via the shell company located in a tax haven company as a result of a

corporate reorganization.

The above amendment is effective for a foreign corporation whose fiscal year ends on or after April 30, 2008.

#### 4. Independent Agent PE excluded from scope of PE definition

Before the 2008 Tax Reform, agents that create a PE of a nonresident individual or foreign corporation include a “contracting agent”, “fills order agent”, and a “negotiating agent”. There is no exclusion from the agent PE definition for an agent of an independent status, although such exclusion exists in many tax treaties that Japan has entered into with other countries. The 2008 Tax Reform excludes an independent agent from the domestic law agent PE definition.

In principle, the above amendment applies to determinations on or after April 1, 2008 in connection with whether an agent creates a PE.

### Taxation related to TMK and Investment Corporation

- The definition of a qualified institutional investor (“**QII**”) in the context of a TMK structure (e.g., subscriber to TMK Bonds) is broadened. With regard to the preferential treatment on real estate acquisition tax, a similar reform is introduced.
- The definition of a “family corporation” for J-REIT purposes is revised to include companies controlled by one group of shareholders instead of three groups of shareholders. This amendment applies to fiscal years ending on or after April 1, 2008.
- The reduced registration tax rate on the transfer of specified real estate properties acquired by a TMK based on its Asset Liquidation Plan is increased, and it is extended for two more years.

	to March 31, 2009	from April 1, 2009 to March 31, 2010	from April 1, 2010
tax rate	0.8%	0.9%	same as ordinary corporation (which varies depending on the type of property)

- The amended rules replace the foreign tax credit system and are applied to dividends paid for fiscal years beginning on or after April 30, 2008. Under the amended rules, foreign income taxes paid by a TMK are creditable against withholding income taxes imposed on dividends paid by the TMK. The amount of deduction is limited to the amount of withholding income tax imposed on the dividend.

### Inheritance Tax

#### 1. Deferral of inheritance tax payment (This Tax Reform is expected to introduce in 2009 Tax Reform)

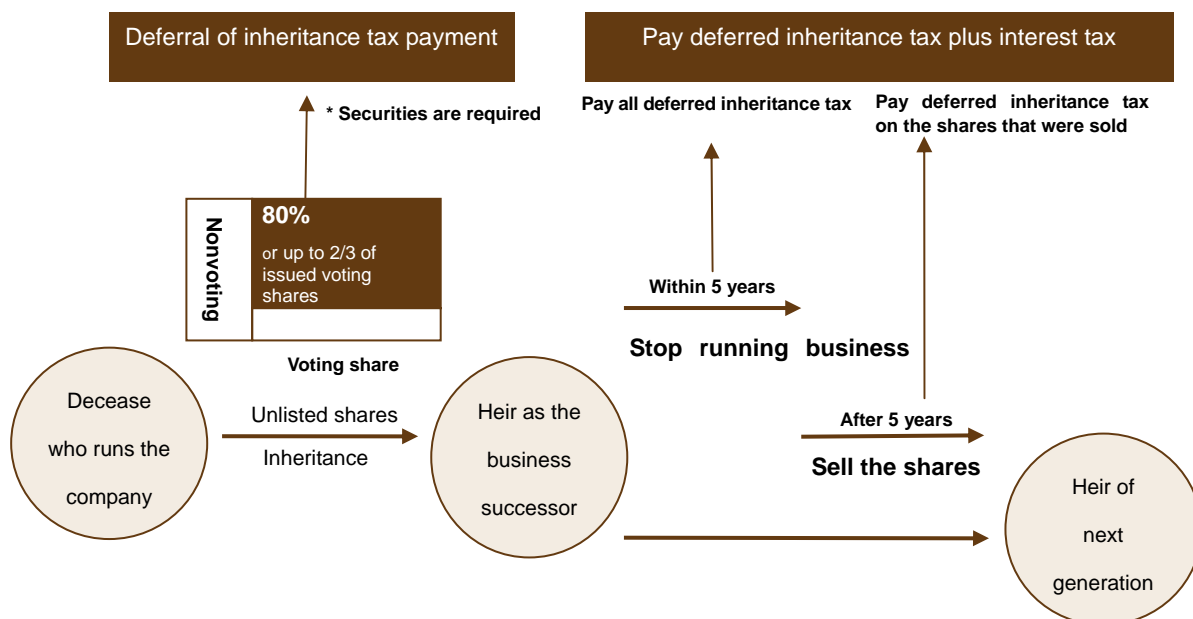
“Smooth Succession of SMEs Law” will come into effect from Oct 1, 2008. Based on this law, a deferral of the inheritance tax payment on inherited unlisted shares will be introduced in 2009 Tax Reform.

The existing special treatment for stock without quotes will terminate, with interim rules for transition period.

##### (1) Overall scheme

When the heir as the “Business successor” inherits the unlisted shares from the deceased who ran the company, the inheritance tax payment on the unlisted shares (up to 80% of two-thirds of the total stock issued by the company) may be deferred.

- Conditions of the heir as “Business successor”  
The heir as the “Business successor” owns more than 50% of shares in the company which is authorized by the Minister of MITI based on the “Smooth Succession of SME Law” along with the other heirs (defined to include relatives), and is the majority shareholding owner of the company.
- Conditions of deceased  
The deceased (and relatives) must have held more than 50% of the shares in the company at the time of inheritance, and the deceased must have been the leading shareholder of the company among all relatives (excluding the heir as business successor) who owned shares in the company.
- Securities  
In order to adopt this rule, all the shares inherited need to be provided as securities.
- Computation of deferral amount of inheritance tax  
Deferred tax amount will be (i) minus (ii) as follows:
  - (i) Calculated inheritance tax if the heir inherits only the companies share.
  - (ii) Calculated inheritance tax if the heir inherits 20% of (i).
- Exemption of the deferred inheritance tax  
If the heir as the business successor keeps the shares until he or she meets certain conditions (e.g. keeps the shares until death), the deferred inheritance tax will be exempt.
- Payment of the deferred inheritance tax  
In the following cases, the heir as the business successor needs to pay the full or a portion of the deferred inheritance tax, as well as interest tax that is accrued on the deferred payment terms.
  - If the heir as the business successor stops running the business (e.g. the heir quits as the leading director) within 5 years of the statutory payment due date of the inheritance tax, the heir must pay the total deferred inheritance tax.
  - If the heir as the business successor sells the shares after 5 years from the statutory payment due date of the inheritance tax, the heir must pay the deferred inheritance tax on the shares that were sold.
- Anti-tax avoidance rules  
In order to prevent tax avoidance by utilizing private wealth management companies, anti-tax avoidance rules will be introduced.



(2) Effective date

The amendments described above will be applied to inheritances after October 1, 2008.

2. Revision of evaluation rulings

The following elements for goodwill valuations of unlisted shares based on the net asset value method will be revised. These rulings apply to the inheritance gifts after January 1, 2008.

- Calculation method
- Remuneration amount for management
- Interest rate applied to the gross asset value

3. Extension of applicable period for special treatment under unified gift / inheritance tax system

The application period for special treatment relating to purchase of the residence under unified gift / inheritance tax system is extended for two years.

**Other Amendments**

1. Deduction for contributions

(1) Public-interest corporation

The deduction for contributions to specified public interest corporation is applied to the contribution to Koueki-Syadan-Houjin and Koueki-Zaidan-Houjin for corporate tax purposes. For individual income tax purposes, no capital gain will be deemed to accrue from the contribution in kind to Koueki-Syadan-Houjin, Koueki-Zaidan-Houjin, and Syadan-Houjin and Zaidan Houjin which meet certain conditions.

The above amendment is effective on December 1, 2008.

(2) Contribution to public-interest corporation

For corporate tax purposes, the limitation of deductible amount for contributions to public-interest corporation based on the taxable income was raised to 5% from 2.5% of the taxpayer's taxable income.

The above amendment is applicable for the fiscal year beginning on or after April 1, 2008.

(3) Credit for contributions for inhabitants tax purposes

- Expansion of deductions  
Deduction for contributions for inhabitants' tax purposes will be extended to cover the contributions which are specified by prefectural governments or municipality as the contributions for public interest. The deduction for contributions is changed to the credit for contributions. The creditable amount is computed as 4% of the contribution for prefectural inhabitant's tax and 6% of the contributions for municipal inhabitant's tax. In addition, the restriction on the applicable amount for credit for contributions was raised to 30% from 25% of the taxpayer's total income. The lower limit of the applicable amount of credit for contributions was reduced to JPY5,000 from JPY100,000.
- "Furusato Nouzei"  
When the taxpayer contribute more than JPY5,000 to prefectural governments or municipality, on the top of the above credit for contributions, the contributed amount over JPY5,000 multiplied by 90% minus marginal tax rate for individual income tax purposes which is applicable to the taxpayer is credited against inhabitants' tax of the taxpayer. 60% of the creditable amount will be credited against prefectural inhabitants' tax and 40% of the creditable amount will be credited against municipal inhabitants' tax.

The above amendment is applicable to the individual inhabitants tax for the calendar year of 2009 or after.

2. Local taxes

New local tax regime was introduced instead of reduction of enterprise tax rate. Under the new local tax regime, the national governments collect the tax on behalf of local governments, followed by allocation from the national governments to the local governments based on number of employees and population.

(1) Existing local enterprise income tax rate was reduced.

New tax rate for local enterprise income tax will apply for the fiscal year beginning on or after October 1, 2008.

- For a company with a share capital of more than JPY100 million:

Annual taxable income	Current rate	New rate
JPY4,000,000 or less	3.8%	1.5%
JPY4,000,001 to JPY8,000,000	5.5%	2.2%
JPY8,000,001 or more	7.2%	2.9%

- For a company with share capital of JPY100 million or less

Annual taxable income	Current rate	New rate
JPY4,000,000 or less	5%	2.7%
JPY4,000,001 to JPY8,000,000	7.3%	4%
JPY8,000,001 or more	9.6%	5.3%

- For a special company (agricultural cooperative association, healthcare corporation, etc):

Annual taxable income	Current rate	New rate
JPY4,000,000 or less	5%	2.7%
JPY4,000,001 or more and income on liquidation	6.6%	3.6%
More than JPY1 billion for certain cooperative association	7.9%	4.3%

- For a company such as gas, electricity and insurance company

	Current rate	New rate
Annual gross revenue	1.3%	0.7%

Note: Lower rates do not apply to the companies operating in 3 prefectures or more if its share capital is JPY10 million or more.

(2) Special local corporation tax was newly introduced.

Outline of new special local corporation tax

- Taxpayer - A company who is required to pay existing local enterprise tax
- Tax basis - Amount of local enterprise income tax due
- Tax rate
  - A company with a share capital of more than JPY100 million: 148%
  - A company with a share capital of JPY100 million or less: 81%
  - A company subject to enterprise tax on gross revenue: 81%
- Filing tax return - The special local corporation tax would be paid by a taxpayer through filing of tax returns together with local enterprise taxes.
- Collection by the national government - Local governments pay the special local corporation tax collected from the taxpayers to the national government.

Applicable date

The special local corporation tax would apply to the fiscal year beginning on or after October 1, 2008.

(3) Reallocation from the national government to the local governments

The national governments allocate the special local corporation tax to the local governments based on the number of population and employees.

3. Registration tax for the transfer of land

New registration tax rate would apply to the registration for transfer of land on or after April 1, 2008.

	Registration on or before April 1, 2009	Registration on or after April 1, 2009	Registration on or after April 1, 2010 and on or before March 31, 2011
Registration of transfer of ownership of land	1%	1.3%	1.5%
Registration of trust for ownership of land	0.2%	0.25%	0.3%

4. Change of administrative appeal

Change of advance ruling procedure

The advance ruling procedure was changed as follows:

- The transaction which is planned to be done in future is subject to the advance ruling provided that the taxpayer can provide concrete information of the transaction.
- In the publication of the result of the advance ruling, information which reveals the taxpayer who applied the advance ruling is not subject to the publication.
- The timing of the publication of the result of the advance ruling is extended to within 180 days ( within120 days before the amendment) in certain cases.
- The due date of the close of cases as a guide is changed to "as soon as possible, within 3 moths after the application is submitted" from "within 3 moths after the application is submitted".

The above amendment is applicable to the application for advance ruling which is filed on or after April 1, 2008.

5. Other

(1) Tonnage tax regime

A company filing blue form tax return and being approved under Marine Transportation Laws can elect tonnage tax regime. A company who wants to elect tonnage tax regime is required to file an election form before the beginning date of the applicable fiscal year.

Tonnage tax would only apply to the revenue generated from operation of vessels registered in Japan. If the net revenue from the Japanese vessel operation is exceeding over the standard profit per ton which is provided under the regime, the exceeding amount can be deducted from the company's taxable income. Otherwise, if the net revenue is lower than the standard profit, the company's taxable income would be adjusted to the standard profit.

(2) Taxation for a public-interest corporation

With the revision of regulations for public-interest corporation, the taxation of corporate tax on public-interest corporation is changed as follows:

- Exception of the revenue from public interest activity conducted by the public-interest Corporation
- The revenue from public interest activity conducted by the public-interest corporation is excluded from the taxable revenue.
- Deduction for deemed contribution  
Amount spent by the taxable activity and used for the public interest activity is deemed as contribution to public interest activity and subject to calculation of statutory limitation of deductible contribution.
- Applicable tax rate  
Revenue from the taxable activity is levied at 30% standard tax rate.

**For more information, please consult your international tax representative or contact any of the following members listed below:**

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