

# Financial Services Tax News

March 2008

## PwC Japan Tax Newsletter

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## 2008 Tax Reform Summary Revision on Taxation on Securities for individuals

Following the release of the draft income tax law on January 25, 2008, by the Ministry of Finance, the Ministry of Internal Affairs and Communications released the draft local tax laws on January 31, 2008 (together, the "draft tax laws"). The draft tax laws have been submitted to the Diet for review, and upon approval by the Diet, the law will be published.

An outline of the 2008 tax reform was introduced in the December 2007 issue of our Newsletter. This issue focuses on the proposed changes to the taxation of securities for Japanese resident individuals.

The following analysis may need to be updated as, at the date of issue of this Newsletter, the draft tax laws remain subject to Diet approval.

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## Outline of tax reform

With regard to taxation of securities for individuals, the 2008 tax reform included the following proposals:

- Abolition of the existing concessional tax rate on capital gains on listed stocks;
- Abolition of the existing concessional withholding tax rate on dividend income on listed stocks;
- Introduction of the separate assessment taxation election on dividend income on listed stocks; and
- Introduction of preferential treatment on aggregation of profit and loss of dividend income and capital loss on listed stocks.

## Content of tax reform

### **Abolition of the existing concessional tax rate on 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%).

However, from January 1, 2009 to December 31, 2010, 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 JPY 5 million.

### **Abolition of the existing concessional withholding tax rate on dividend income on listed stocks**

The existing concessional withholding tax rate of 10% (national 7%, local 3%) for individual investors which applies to dividends on listed stocks will be abolished on December 31, 2008. Dividends paid to on or after January 1, 2009, will be subject to a withholding tax rate of 20% (national 15%, local 5%).

However, from January 1, 2009 to December 31, 2010, a transitional withholding tax rate of 10% (national 7%, local 3%) will apply to dividends on listed stocks (excluding dividends paid to major shareholders, as defined).

When dividend income paid from listed stocks, which is subject to the transitional withholding tax rate, exceeds an annual ceiling of JPY 1 million, the recipients are required to file tax returns and report such dividend.

### **Introduction of the separate assessment taxation election on dividend income on listed stocks**

From January 1, 2009, individual investors who received dividends on listed stocks may elect separate assessment taxation at the rate of 20% (national 15%, local 5%). Investors may also elect the aggregation taxation and deduction of dividend; however, any election made will apply to all dividend income received during a year.

In addition, from January 1, 2009 to December 31, 2010, a transitional withholding tax rate of 10% (national 7%, local 3%) will apply to dividends on listed stocks, up to an annual ceiling of JPY 1 million, filed under separate assessment taxation.

### **Introduction of preferential treatment on aggregation of profit and loss of dividend income and capital loss on listed stocks**

Where an individual investor incurs a capital loss from disposal of listed stocks in a current year, or in any three years prior to the current year, the capital loss may be offset against dividend income received from the listed stocks. However, this is restricted to those individuals filing under separate assessment taxation election.

The above preferential tax treatment will apply to individual income tax imposed on taxable income in 2009 and following and inhabitants tax imposed in 2010 and following.

**For more detailed information, please do not hesitate to your financial tax services representative or any of the following members:**

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