



Financial Services Tax News

Financial Services Tax Group

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Japanese Taxation on Transfer of Land and Buildings

In order to promote utilization of land, taxes on land transactions were drastically reduced under the 2003 tax reforms. Subsequently, the special tax treatment of registration tax on real property which reduces the tax base to one-third was abolished. Under the 2005 tax reforms, the applicable periods for the reduction of real property acquisition tax rates for qualifying Tokutei Mokuteki Kaisha ("TMK") and Investment Corporation ("J-Reit") and the reduction of stamp duty were extended.

We summarize below the principal taxes on the transfer of land and buildings.

1. Registration tax on real property

The registration tax rates of real property transactions are as follows:

	to March 31,2006	from April 1,2006
Initial registration of ownership	0.2%	0.4%
Transfer of ownership by sale	1.0%	2.0%
Transfer of ownership by merger	0.2%	0.4%
Entrustment of ownership	0.2%	0.4%

TMK and J-Reit

	to March 31,2006	from April 1, 2006
Transfer of ownership by sale	0.6%	2.0%

When TMKs purchase real property in accordance with the Asset Liquidation Plan and J-Reits purchase real property

under qualifying conditions, the registration tax rate on real property is reduced to 0.6%, for transactions on or before March 31, 2006 (Article 83-3 in the Special Taxation Measures Law).

2. Real property acquisition tax

The rates of real property acquisition tax are reduced for transactions on or before March 31, 2006 (Article 11-2 of Supplementary Regulations of the Local Tax). For residential land acquired on or before December 31, 2005, the tax base is reduced by one-half of its assessed value (Article 11-5 of Supplementary Regulations of the Local Tax).

	to December 31, 2005	from January 1, 2006 to March 31, 2006	from April 1, 2006
Building	3.0%	3.0%	4.0%
Land	1.5%	3.0%	4.0%

In the table above, the rate of real property acquisition tax up to December 31, 2005 is the effective rate after application of the special tax treatment to the tax base.

TMK and J-Reit

When TMKs and J-Reits purchase real property under qualifying conditions, the tax base is reduced to one-third. Under the 2005 tax reforms, the applicable period of the reduction of tax base was extended for transactions on or before March 31, 2007 (Article 11-10 and 11-19 of Supplementary Regulations of the Local Tax).

	to December 31, 2005	from January 1, 2006 to March 31, 2006	from April 1, 2006 to March 31, 2007	from April 1, 2007
Building	1.0%	1.0%	1.33%	4.0%
Land	0.5%	1.0%	1.33%	4.0%

In the table above, the rates of real property acquisition tax are the effective rates after application of the two special tax treatments to the tax base, i.e., one-half and one-third.

3. Special land holding tax

The imposition of the special land holding tax has been suspended since April 1, 2003.

4. Stamp tax

Under the 2005 tax reforms, the applicable period for the reduction of stamp duty for the transfer of real property (Article 91 of Special Taxation Measures Law) was extended for another two years to March 31, 2007.

	standard amount	reduced amount
over 10 million but not more than 50 million	20,000	15,000
over 50 million but not more than 100 million	60,000	45,000
over 100 million but not more than 500 million	100,000	80,000
over 500 million but not more than 1,000 million	200,000	180,000
over 1,000 million but not more than 5,000 million	400,000	360,000
over 5,000 million	600,000	540,000

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