



Financial Services Tax Group

News Letter

December 2004

Enhancement of Taxation of Kumiai

- Proposed FY 2005 Japanese Tax Reform -

On December 15, 2004, the proposed Japanese tax reforms for the 2005 fiscal year were issued by the Liberal Democratic Party. We summarize below the proposed key tax reforms in connection with the taxation of the Japanese partnership (“Kumiai”).

1. Withholding tax on NK profit distributions to Non-resident NK investors

Profit distributions to non-resident individuals and corporations (“Non-resident NK Investors”) derived from NK business conducted in Japan, which is required to be reported under the self assessment system, will be treated as follows under the proposed FY 2005 Japanese tax reforms. The Term “Nin-i-Kumiai” or NK in this context means Kumiai defined under the Japanese Civil Code and other similar Kumiai arrangements established in Japan and outside Japan. :

- (1) NK profits attributed to Non-resident NK Investors are subject to withholding tax at the rate of 20%, which is imposed two months after the last day of the calculation period of the NK unless the profits are distributed prior to that date in which case withholding tax will be imposed on that distribution date.
- (2) Non-resident NK Investors with permanent establishments in Japan that conduct business other than NK business, will not be subject to the above withholding tax provided certain requirements are satisfied.

The above reforms will apply to profit distributions from calculation periods starting on or after April 1, 2005.

PricewaterhouseCoopers-Tax, Tokyo
Kasumigaseki Bldg. 15F,
2-5, Kasumigaseki 3-chome, Chiyoda-ku
Financial Services (TEL 81-3-5251-2400)

Partner : Sachihiko Fujimoto
Katsuyo Oishi
Yuka Matsuda
Tetsuo Iimura
Akemi Kitou
Raymond Kahn
Director : Stuart Porter

Senior Manager : Hiroshi Takagi
Manager : Kimihito Takano
Hiroko Suzuki
Shunji Suzuki
Kenji Nakamura
Yoko Kawasaki