

# Financial Services Tax News

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## PwC Japan Tax Newsletter

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## Tax Reform on Termination or Partial Redemption of an Investment in Public Stock Investment Trusts

The 2008 tax reforms amended the taxation treatment for individual investors arising from a termination or partial redemption of an investment in public stock investment trusts. This Newsletter summarizes the amendments.

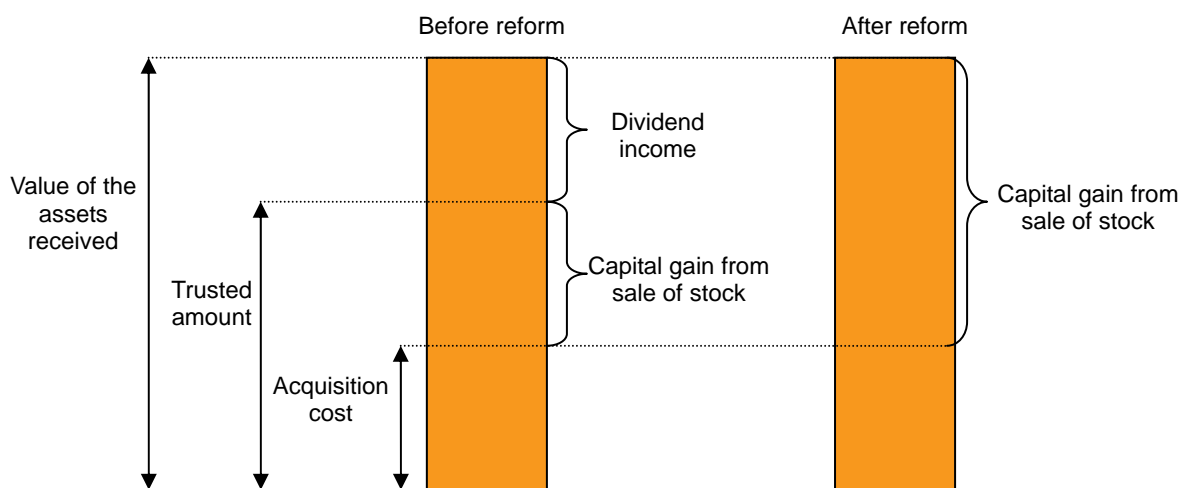
## Summary of the Reform

Before the 2008 tax reforms, where a Japanese resident individual<sup>1</sup>, received cash or other assets (collectively “assets”) from the termination (*shuryo*)<sup>2</sup> or partial redemption (*ichibu kaiyaku*) of a certain investment trust<sup>3</sup>, the value of the assets received up to the trusted amount was classified as sales proceeds from the sale of stock, and the value of the assets received in excess over the trusted amount was classified as dividend income subject to withholding income tax at a rate of 10% or 20%, depending on the type of investment trusts.

After the 2008 tax reforms, where a Japanese resident individual receives assets arising from a termination or partial redemption of public stock investment trusts<sup>4</sup>, the value of the assets received is classified as sales proceeds from the sale of stock and not subject to withholding tax.

The following graphic summarized the before and after effect of the tax reform.

### Classification of income arising from the termination or partial redemption of public stock investment trusts



Note that, where a Japanese resident individual receives assets arising from the termination or partial redemption of a certain investment trust which is not a public stock investment trust, the value of the assets received up to the trusted amount is still classified as sales proceeds from the sale of the stock, and the value of the assets received in excess over the trusted amount is classified as dividend income subject to withholding tax.

<sup>1</sup> Including non-resident individual who has a permanent establishment in Japan.

<sup>2</sup> Where the termination is made in relation to the merger of stock investment trusts, this rule applied only where the beneficiaries received the assets other than a new beneficial interest in the merged trusted.

<sup>3</sup> For these purposes, an investment trust includes a securities investment trust (other than bond investment trust) (“stock investment trust”), an investment trust (other than a bond management and investment trust) and a trust issuing beneficiary certificates.

<sup>4</sup> Public stock investment trusts mean stock investment trusts where the initial offering is made by way of a public offering as defined under the Financial Instruments and Exchange Law (“FIEL”) Article 2, Paragraph 3 (1) and the FIEL Enforcement Order Article 1-5.

## **Background to the Reform**

In general, individual investors may realise a gain/loss from an investment in a beneficial interest in a stock investment trust through accepting the redemption, or by requesting that the securities company repurchase the beneficial interest. Prior to the 2008 tax reform, different tax treatments applied to a redemption and a request for repurchase. In case of the redemption, part of the value of the assets received may have been classified as dividend income and subject to withholding tax, whereas in case of the request for repurchase, the entire value of the assets received was classified as sales proceeds from the sale of stock.

After the 2008 tax reforms, the tax treatment of Japanese resident individual is neutral for public stock investment trusts, i.e., the entire value of the assets received is classified as sales proceeds from the sale of stock whether undertaken as a redemption or a request for repurchase.

## **Effective Date**

The amended taxation treatment will apply to terminations or partial redemptions of public stock investment trusts made on or after January 1, 2009.

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

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