

# Financial Services Tax News

Special Edition: May 2008

## PwC Japan Tax Newsletter

Tax Practice of PricewaterhouseCoopers Japan (Zeirishi-Hojin PricewaterhouseCoopers) is one of the largest professional tax corporations in Japan with more than 530 professionals. Our Financial Services Tax Group is comprised of approximately 130 professionals, dedicated specifically to advising the financial services industry.

The firms of the PricewaterhouseCoopers global network ([www.pwc.com](http://www.pwc.com)) provide industry-focused assurance, tax and advisory services to build public trust and enhance value for clients and their stakeholders. More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

This Tax News is provided for general guidance only, and does not constitute the provision of advice or professional consulting of any kind. Before making any decision or taking any action, you should consult your usual PwC contact with all the pertinent facts relevant to your particular situation.

## 2008 Japanese Tax Reforms Application Date for reforms affecting the Financial Services Industry

On April 30, 2008, the Reform of the Individual Income Tax Law and others and Reform of the Local Tax Law (together, "Tax Reform Laws") were approved by the Diet and the related enforcement orders and ordinances were published.

Our Newsletter issued in December 2007 provided an outline of the 2008 tax reforms. Although the Tax Reform Laws were expected to be approved on or before March 31, 2008, approval was delayed until April 30, 2008. This Newsletter provides a summary of the application dates of the principal reforms for the financial services industry, including the special taxation measures which expired on March 31, 2008.

Zeirishi-Hojin PricewaterhouseCoopers  
Financial Services  
Kasumigaseki Bldg., 15F  
2-5 Kasumigaseki 3-chome  
Chiyoda-ku, Tokyo 100-6015  
Telephone: 81-3-5251-2400  
<http://www.pwc.com/jp/tax>

\*connectedthinking

© 2008 Zeirishi-Hojin PricewaterhouseCoopers.  
All rights reserved. "PricewaterhouseCoopers" refers to Zeirishi-Hojin PricewaterhouseCoopers or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

## Main reforms which apply retroactively from April 1, 2008

### (1) Reform and extension of special taxation of interest and discount upon issuance of *Minkan Kokugaisai*

The above amendment (tax exemption) applies to interest and redemption gain of *Minkan Kokugaisai* issued on or after April 1, 2008 received by a foreign resident individual or foreign corporation. However, the withholding tax rule (imposition of withholding tax) on the interest of *Minkan Kokugaisai* received by Japanese resident individuals and corporations applies from May 1, 2008.

### (2) Independent Agent excluded from the scope of Permanent Establishment (“PE”) definition of an agent

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

### (3) Revision of the definition of a “family corporation” for Japan-Real Estate Investment Trust (“J-REIT”) purposes

The above amendment applies to fiscal years ending on or after April 1, 2008.

### (4) Revision of the statutory useful life of machinery and equipment

This amendment applies to fiscal years beginning on or after April 1, 2008.

### (5) Non-Deductibility of entertainment expenses

The above treatment applies to fiscal years beginning from April 1, 2006 to March 31, 2010.

## Main reforms which apply from April 30, 2008

### (1) Revision of the treatment for the foreign income taxes paid by a *Tokutei Mokuteki Kaisha* (“TMK”) and a J-REIT

The amended rule applies to the foreign income taxes paid in a fiscal year beginning on or after April 30, 2008.

### (2) Non-application of the tax refund provision arising from loss carry-forwards

The above treatment applies to fiscal years ending from April 30, 2008 to March 31, 2010.

### (3) Special tax treatment of undercover (i.e., nondisclosed payee) expenses

The above treatment applies to undercover expenses paid from April 30, 2008 to March 31, 2010.

## Main reforms which apply from May 1, 2008

### (1) Revision of the sourcing rules for certain interest income on bonds issued by foreign corporations

The above amendment applies to bonds issued by foreign corporations on or after May 1, 2008.

The following concessions were extended as a transitional measure when the Tax Reform of the Special Taxation Measures Law to Avoid Disorder on the Life of the People and the Tax Reform Law of the Local Tax Law to Avoid Disorder of the Life of the People were approved by the Diet on March 31, 2008. Furthermore, the applicable period of the following concessions has been abolished (i.e., applied without a predetermined period) or extended with the partial revision of the tax rate under the Tax Reform Laws.

**(1) Abolishment of the applicable period**

- Nontaxable treatment for interest income earned on funds on deposit in a special international financial transaction (*offshore*) accounts.
- Special treatment for interest income on bond repurchase transactions by foreign financial institutions.

**(2) Extension of the applicable period with the partial revision of the tax rate**

- Reduced registration tax rates on the transfer of ownership of land.
- Reduced registration tax rates on the transfer of ownership where a TMK acquires certain real properties pursuant to an asset liquidation plan.

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

**Zeirishi-Hojin PricewaterhouseCoopers**

Financial Services  
Kasumigaseki Bldg. 15F  
2-5 Kasumigaseki 3-chome  
Chiyoda-ku, Tokyo 100-6015  
Telephone: 81-3-5251-2400  
<http://www.pwc.com/jp/tax>

<b>Partner</b>	Sachihiko Fujimoto	81-3-5251-2423	sachihiko.fujimoto@jp.pwc.com
	Katsuyo Oishi	81-3-5251-2565	katsuyo.oishi@jp.pwc.com
	Yuka Matsuda	81-3-5251-2556	yuka.matsuda@jp.pwc.com
	Tetsuo Iimura	81-3-5251-2834	tetsuo.iimura@jp.pwc.com
	Akemi Kitou	81-3-5251-2461	akemi.kitou@jp.pwc.com
	Hiroshi Takagi	81-3-5251-2788	hiroshi.takagi@jp.pwc.com
	Raymond Kahn	81-3-5251-2909	raymond.a.kahn@jp.pwc.com
	Stuart Porter	81-3-5251-2944	stuart.porter@jp.pwc.com
<b>Managing Director</b>	Marc Lim	81-3-5251-2867	lim.marc@jp.pwc.com
<b>Senior Manager</b>	Kenji Nakamura	81-3-5251-2589	kenji.nakamura@jp.pwc.com
	Yoko Kawasaki	81-3-5251-2450	yoko.kawasaki@jp.pwc.com
<b>Manager</b>	Nobuyuki Saiki	81-3-5251-2570	nobuyuki.saiki@jp.pwc.com
	Akiko Hakoda	81-3-5251-2486	akiko.hakoda@jp.pwc.com
	Mami Sasaki	81-3-5251-2471	mami.sasaki@jp.pwc.com
	Kyoko Imamura	81-3-5251-2855	kyoko.imamura@jp.pwc.com
	Satoshi Matsunaga	81-3-5251-2586	satoshi.matsunaga@jp.pwc.com
	Soichi Toyama	81-3-5251-6212	soichi.toyama@jp.pwc.com
	Takashi Nonaka	81-3-5251-2417	takashi.nonaka@jp.pwc.com
	Hiroko Suzuki	81-3-5251-2156	hiroko.x.suzuki@jp.pwc.com
Daniel Lutz	81-3-5251-6640	daniel.lutz@jp.pwc.com	