

Japan Tax Update

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PwC Japan Tax Newsletter

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The intention of this Japan Tax Update is to provide an outline of the Japanese tax reforms proposed for 2008.

This newsletter is prepared based on the outline of the tax reform proposal released by Liberal Democratic Party on December 13, 2007. The annual tax reform is usually approved by the Diet by the end of March.

The full details of the amended tax laws will not be clarified until Diet approval has been received, and Cabinet Orders or Enforcement Orders enacting the changes issued.

We recommend that you consult with PricewaterhouseCoopers to confirm the finalized position, and do not take any action based solely on the contents of this newsletter.

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Proposed 2008 Tax Reform

This issue exclusively deals with the draft proposed outline of the 2008 tax reform.

Corporate Taxation

- Tax credit for research and development ("R&D") and investments in information security facilities
- Depreciation on fixed assets
- Construction contracts
- Other (Triangular merger, etc.)

Tax Incentive Plans Applied to Small-medium Sized Company

- "Angel" tax incentive plan
- Special tax incentive for information security facilities
- Tax credit for staff training expenses
- Extension of applicable period for various incentive plans

Transfer Pricing Legislation

Tax System on Finance and Corporate Securities

- Taxation related to capital gains on listed stocks
- Taxation related to dividend income on listed stocks
- Preferential tax treatment on aggregation of profit and loss

International Taxation

- Bond interest income earned by non-residents or foreign corporations
- Interest income on bond repurchase agreement
- Anti-Tax Haven taxation
- Independent Agent Permanent Establishment (PE)

Taxation related to TMK and Investment Corporation

Inheritance Tax

- Deferral of inheritance tax payment
- Revision of goodwill valuation
- Extension for special treatment under unified gift/inheritance tax

Other Proposals

- Deduction for contributions
- Introduction of Special Local Corporation tax
- Capital decrease without consideration for enterprise tax purpose
- Registration tax for transfer of land
- Measures to improve the tax administration
- Other

Corporate Taxation

1. Tax credit for research and development (“R&D”) and special tax treatments in connection with investments in information security facilities

(1) Tax credit for R&D Cost

In order to enhance sustainable economic growth in Japan where there is not much affluent natural resources, it is crucial to provide incentives for innovation to spur future economic growth in Japan. The purpose of the proposed tax credit for R&D costs is to provide an additional tax credit based on either (i) the increased portion of R&D costs or (ii) the excess R&D costs over 10% of the average sales proceeds (“Proposed Tax Credit on R&D costs”).

The Proposed Tax Credit on R&D costs is to be applied in addition to the tax credit under the current law, the amount of which is based on a percentage of the aggregate R&D costs (“Tax Credit on Aggregate R&D Costs). As a result of the 2008 tax reform, a corporation will be able to claim a total combined R&D tax credit up to 30% of the current income tax liabilities.

	Type of tax credit	Current R&D tax credit	Proposed R&D tax credit
Tax credit	a) Tax credit calculated on gross R&D cost base	8 ~ 10%* of the gross R&D costs * Rate to be applied will depend on the R&D ratio (R&D costs/ average sales)	8 ~ 10%* of the gross R&D costs * Rate to be applied will depend on the R&D ratio (R&D costs/ average sales)
	b) Tax credit calculated on increased R&D cost base (The proposed credit is applicable for the fiscal years beginning between April 1, 2008 to March 31, 2010)	5% of the excess R&D costs over the annual average of R&D costs for the last three years	Tax credit of i) or ii), as elected by the taxpayer i) 5% of the excess R&D costs over the annual average of R&D costs for the last three years, or ii) excess R&D costs over 10% of the average sales amount x tax credit ratio* * Tax credit ratio = ((R&D costs /average sales) 10%) x 0.2
	c) Joint R&D with the government	12% of the specific R&D costs	12% of the specific R&D costs
Limitation of the credit amount		20% of the current income tax liabilities	20 % of the current income tax liabilities for a) and c) 10% of the current income liabilities for b)

The threshold for the Proposed Tax Credit on R&D Costs is limited to 10% of the annual corporate income tax liability, which is separate from the tax credit limitation on the aggregate R&D Costs and the tax credit for the enhancement of technology for small and medium sized companies (the “Tax Credit on Technology for Small and Medium Sized Companies”).

For fiscal years beginning on or after April 1, 2008 to March 31, 2010, the Proposed Tax Credit on R&D Costs can be calculated according to the table above.

Please note that the above tax credit also applies to small and medium sized companies for corporate inhabitant tax (local income tax) purposes.

(2) Special tax incentive on investment in information security facilities

In the case of a corporation filing a blue form tax return that acquires information security facilities during the period to March 31, 2008 and uses the facilities for its business in Japan, the corporation will be able to elect to either take (i) a tax credit equal to 10% of the "base acquisition cost" (equal to 70% of the acquisition cost) of the facilities or (ii) a special allowance for accelerated depreciation equal to 50% of the base acquisition cost of the facilities.

In order to maintain information security and enhance productivity, the current tax incentives, including the tax credit and accelerated depreciation for investments in information technology, will be extended for 2 more years, but will be revised as follows:

- The scope of information security facilities - currently, the facilities (certificated by ISO15408) as explained in a), b) and c) are qualified for this tax incentive. As a result of the 2008 tax reform, d) will also be added as a qualified facility:
 - a) OS, including the associated server;
 - b) Database control software, including the associated application software;
 - c) Firewall systems (described as a system that prevents invasions from the outside to the company's computer network); and
 - d) Software linking the information systems between independent divisions and corporations.
- Currently, to be eligible for the above incentives, the total acquisition cost of the facilities in an accounting year must be at least 100 million yen (at least 3 million yen for corporations with capital of 100 million yen or less and at least 30 million yen for corporations with capital of more than 100 million yen and less than or equal to 1,000 million yen). As a result of the 2008 tax reform, for companies with share capital or equity of 100 million yen or less, the minimum total acquisition cost for investment in information technology is reduced from 3 million yen to 0.7 million yen.
- Under the 2008 tax reform, for companies with share capital or equity exceeding 1 billion yen, the acquisition cost applicable to this tax credit is limited to 20 billion yen.

(3) Staff training expenses

Under the current tax law, a corporation filing a blue tax return is allowed to report a tax credit against its corporation income tax liability for certain increases in staff training expenses (credit allowed in the year of increase) for its fiscal years starting on or before March 31, 2008.

Under the 2008 tax reform, this special tax credit will only be available to small and medium sized enterprises (SMEs) and is not available to large corporations after the current applicable period expires.

The average training and education expense incurred by SMEs is estimated to be about 0.15% of total labor costs. This special tax credit is calculated using the tax credit rate for Education and Training Costs. The range of the tax credit rate is between 8% and 12%, depending upon the Education and Training Ratio.

Corporation	Large corporation	SMEs
Tax credit under the current tax law	a) 25% of the excess staff training expenses over the average staff training expenses in the previous two years. However, this credit cannot exceed 10% of the current income tax liabilities.	As an alternative to a), a SME is able to elect to calculate the tax credit as explained below, to the extent the staff training expenses have increased over the average staff training expenses in the previous two years: Tax credit = 50% of the increased ratio* times the gross amount of staff training expenses incurred for the year * but does not exceed 20%

Proposed reform	Abolished for tax years beginning on or after April 1, 2008.	Tax credit ratio* (8 ~ 12%) times the gross amount of staff training expenses incurred for the tax year * (e.g. tax credit = 8% + (the Education and Training Ratio – 0.15%) x 40).
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Please note that the above tax credit also applies to small and medium sized companies for corporate inhabitant tax (local income tax) purposes.

2. Depreciation on fixed assets

- In addition to eliminating the final depreciable limit (i.e. residual value) under the 2007 Tax Reform, the 2008 tax reform included a proposal to revise the statutory depreciable lives mainly for machinery and equipment to make them more consistent with their actual economic useful lives. In addition, the 2008 tax reform included a proposal to regroup some of the statutory depreciable lives into larger categories. These proposed changes would be effective for depreciation (of both existing and newly acquired assets) for fiscal years beginning on or after April 1, 2008.
- With respect to the special treatment in connection with using accelerated statutory depreciable lives, the application and approval process which was necessary to obtain the special treatment is considered to be administrative burdensome. As a result, the 2008 tax reform includes a proposal to eliminate the additional application and approval process for the following:
 - newly acquired assets that are in the same group of assets that already received approved for this special treatment, or
 - if insignificant modifications are made to the approved assets.

3. Tax reform in compliance with the new accounting standards for construction contracts (the “Large Long-Term Contracts”)

The Accounting Standards Board of Japan (ASBJ) released the Accounting Standard for Construction Contracts (Statement No.15) and the Guidance on Accounting Standard for Construction Contracts (Guidance No.18), which is applicable to years beginning on or after April 1, 2009.

Under the current tax law, the recognition of revenue based on the “construction in progress” method is permitted to the extent that certain requirements are satisfied. To comply with the new accounting standard and guidelines for construction contracts, such requirements shall be amended as follows:

- Under the current law, the “construction in progress” method is applicable to “Large Long-Term Contracts” whereby the construction period lasts 2 years or longer and the contracted amount is 5 billion yen or more. The 2008 tax reform includes a proposal to change the contract period from 2 years to 1 year and the threshold for the contracted amount is lowered from JPY 5 billion to JPY 1 billion.
- Under the current tax law, contracts which are expected to incur a net loss are not included in the definition of “Large Long-Term Contracts”. Under the 2008 tax reform, such contracts with losses shall be included in definition of “Large Long-Term Contracts”.
- “Large Long-Term Contracts” include software projects.
- An allowance for doubtful accounts can be applied for tax purposes to financial receivables recognized under the “construction in progress” method.
- Additional matters relating to “Large Long-term Contracts” will be legislated separated.

4. Other (Triangular merger, etc.)

In the case where cash is received in lieu of a fractional share as a result of a triangular merger, the 2008 tax

reform includes a proposal to clarify that the shareholder is deemed to receive a fractional share and such payment shall not taint the tax qualified status of the merger.

In the case where cash is received as a result of submitting a claim to the court regarding the fair valuation when the taxpayer disagrees with the allotment of shares received as a result of a mandatory redemption of shares by the issuing company, the 2008 tax reform includes a proposal that provides that such cash payment will not be treated as a disbursement of cash as consideration for the mandatory redemption. Therefore, such cash payment will not trigger capital gain taxation to the other shareholders.

Tax Incentive Plans Applied to Small-medium Sized Company

1. "Angel" tax incentive plan

If taxpayers invest in stock of a specific SME described below, the investment up to 10 million yen is treated as a contribution and it is deducted from the acquisition of the stock.

- The Company is in the first year of its establishment and it is a specified newly established SME; or
- The Company is in the second or third year of its existence and it is a specified newly established SME with negative cash flow in the last fiscal year and the year prior.

The existing special treatment for capital gains applicable to stocks issued by specified SMEs will terminate after the transition period.

2. Special tax incentive on investment in information security facilities

The applicable period will be extended for 2 years and with following amendment:

- For companies with share capital or equity of 100 million yen or less, the minimum total acquisition cost for investment in information technology is reduced from 3 million yen to 0.7 million yen.
- Software linking the information systems between independent divisions and corporations will be added as a qualified facility.

3. Tax credit for staff training expenses

- If the staff training expense is or more 0.15% of total labor expenses (average staff training expense ratio for SMEs), tax credit will be available. The tax credit is equal to the amount which is the tax credit ratio (8-12%*) times the gross amount of staff training expenses.

$$(*) \quad 8\% + (\text{staff training expenses} / \text{total labor costs} - 0.15\%) \times 40$$

4. Extension of applicable period

The applicable period for the following tax incentive plans for SMEs will be extended for two years:

- Investment promotion plan for SMEs;
- Deduction of entertainment expenses up to 4 million yen;
- Exemption from the loss-carried-back suspension in the case of SMEs who incur tax net operating losses in the initial five years after establishment; and
- Special treatment for depreciable assets less than 300,000 yen.

Transfer Pricing Legislation

- (1) Information to be disclosed on the tax return schedule in connection with transactions with Foreign Affiliated Companies

Additional information related to the Foreign Affiliated Companies, such as the number of employees, retained earnings, and whether an APA has been obtained, will be required to be reported on Schedule 17(3), which is required to be attached to the corporate income tax return.

- (2) Introduction of a deferral of local tax collection in relation to mutual agreement procedures

The tax deferral on transfer pricing assessments, which was introduced in the 2007 tax reform, will now be applicable to local taxes as well. Specifically, in the event that a taxpayer files a request for mutual agreement procedures, the taxpayer can request a deferral of the payment for both corporate inhabitants' taxes and enterprise taxes, subject to collateral being provided. In addition, the taxpayer is exempt from delinquent taxes during the deferral period.

Tax System on Finance and Corporate Securities

1. Taxation related to 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%).
- 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 5 million yen from January 1, 2009 to December 31, 2010.

2. Taxation related to dividend income on listed stocks

- The existing concessional withholding tax rate of 10% (national 7%, local 3%) which applies to dividend income paid on listed stocks was extended until March 31, 2009 under the 2007 tax reforms; however, it will be abolished on December 31, 2008. Dividends paid on or after January 1, 2009 will be subject to a withholding tax rate of 20% (national 15%, local 5%).
- A transitional withholding tax rate of 10% (national 7%, local 3%) will apply to dividend income paid on listed stocks (except when paid to large shareholder who has a large ownership) from January 1, 2009 to December 31, 2010. However, if the aggregate dividend income paid on listed stocks (except for dividend income on a listed stock where the total annual dividend is 10,000 yen or less) is more than an annual ceiling of 1 million yen, the preferential treatment of filing exemption on dividend income will not apply.
- From January 1, 2009, Japanese resident individuals will be able to elect to be separately taxed at 20% (national 15%, local 5%) on dividend income on listed stocks. Under the separate taxation assessment, a transitional withholding tax rate of 10% (national 7%, local 3%) will apply to dividend income paid on listed stocks up to annual ceiling in aggregate of 1 million yen from January 1, 2009 to December 31, 2010.

3. Preferential tax treatment on aggregation of profit and loss

If a Japanese resident individual incurs a capital loss from the disposal of listed stocks in the current year, or in any of the three prior years, such capital loss may offset against dividend income on listed stocks (provided a separate taxation assessment is elected by the taxpayer). The above preferential tax treatment will apply to individual income tax imposed on taxable income from 2009 and inhabitants tax imposed from 2010.

International Taxation

1. Taxation on bond interest income earned by non-residents or foreign corporations

The following amendments will apply to bonds issued by foreign corporations on or after April 1, 2008:

- a) The definition of Japan sourced income will be expanded to cover interest on bonds issued by a foreign corporation which is attributable to a business conducted in Japan by the foreign corporation.
- b) In the case of discount bonds issued outside of Japan by a foreign corporation, where the discount on issuance of the bond is attributable to the business conducted in Japan by the foreign corporation, the profits upon redemption of the bonds will be subject to Japanese withholding tax at the rate of 18%.
- c) The withholding tax exemption for interest on bonds, issued by Japanese corporations outside of Japan and the coupon payment on which is also paid outside of Japan (*minkan kokugaisai*), will also apply to bond interest issued from certain foreign corporations. In addition, the exemption period will be extended for two more years.

Under the current Japanese tax law, if interest on bonds issued by a foreign corporation is attributable to a business conducted in Japan by the foreign corporation, such interest should not be treated as Japan sourced income. Therefore, except where the source of income is changed under the terms of a tax treaty with Japan, such interest should not fall within Japan sourced income and not subject to Japanese withholding tax. The proposed reforms as described in a) and b) above should be introduced to change the above current treatment. Under the proposed tax reform as described in c), the special taxation of *minkan kokugaisai* will apply to interest on bonds issued by certain foreign corporations; accordingly, these reforms will affect the structuring of various types of asset liquidations or securitizations.

2. Taxation with regard to interest income on bond repurchase agreement

The applicable period of the special taxation with regard to interest income on bond repurchase transactions by foreign financial institutions will be expired. This special taxation was introduced as a transitional treatment for two years in the 2002 tax reforms to promote bond repurchase transactions between domestic and foreign financial institutions and it was extended until March 31, 2008. However, by the 2008 tax reform, the rule (currently prescribed in the Special Taxation Measures Law as transitional rule) shall be incorporated in the Income Tax Law as a non-transitional rule.

3. Anti-Tax Haven taxation

With regard to controlled foreign corporation ("CFC") rule, which deems the undistributed passive earnings of foreign corporations in low-tax jurisdictions (with an effective rate of 25% or less) as taxable income of Japanese corporation (or Japanese individual) if certain conditions are met, a corporation controlled by directors of the other Japanese corporation is to be included in the affiliated shareholding group to determine whether the other Japanese corporation is subject to CFC rule.

"Foreign related companies" are foreign companies where more than 50% of the issued shares were held either directly or indirectly by Japanese residents or certain Japanese corporations those which either own directly or indirectly at least 5% of the issued share capital of the foreign related company or are a member of family shareholder groups with such holdings. The share ownership of any director (resident and non-resident) and relatives of the Japanese corporation shall be included in determining if the 50% or 5% tests above are met.

Under the 2008 tax reform, the definition of "family shareholder groups" includes corporations controlled by a director of the Japanese corporation.

The above proposals would be effective for a foreign corporation whose fiscal year ends on or after April 1, 2008.

4. Independent Agent Permanent Establishment (PE) excluded from scope of PE definition

Under current Japanese domestic law, agents that create a PE of a nonresident individual or foreign corporation include a “contracting agent”, “fills order agent”, and a negotiating agent”. There is no exclusion from the agent PE definition for an agent of an independent status, although such exclusion exists in many tax treaties that Japan has entered into with other countries.

The 2008 tax reform includes a proposal to exclude an independent agent from the domestic law agent PE definition.

The above proposal will apply to determinations on or after April 1, 2008 in connection with whether an agent will create a PE.

Taxation related to TMK and Investment Corporation

- The definition of a qualified institutional investor (“QII”) in the context of a TMK structure (e.g., subscriber to TMK Bonds) will be broadened. With regard to the preferential treatment on real estate acquisition tax, a similar reform will be introduced.
- The definition of a “family corporation” for J-REIT purposes will be revised to include companies controlled by one group of shareholders instead of the existing three groups of shareholders.
- The reduced registration tax rate on the transfer of specified real estate properties acquired by a TMK based on its Asset Liquidation Plan will be increased from 0.8% to 0.9% for acquisitions made on or after April 1, 2009, and it will be extended a two more years.
- The proposed rules will replace the current foreign tax credit system and will be applied to dividends paid for fiscal year beginning on or after April 1, 2008. Under the proposed rules, foreign income taxes paid by a TMK will be creditable against withholding income taxes imposed on dividends paid by a TMK. The amount of deduction will be limited to the amount of withholding income tax imposed on the dividend.

Inheritance Tax

1. Deferral of inheritance tax payment

Based on the “Smooth Succession of SMEs Law” (tentative name), a deferral of the inheritance tax payment on inherited unlisted shares will be introduced.

The existing special treatment for stock without quotes will terminate, with interim rules for transition period.

- (1) Overall scheme
When the heir as the “Business successor” inherits the unlisted shares from the deceased who ran the company, the inheritance tax payment on the unlisted shares (up to 80% of two-thirds of the total stock issued by the company) may be deferred.
 - Conditions of the heir as “Business successor”
The heir as the “Business successor” owns more than 50% of shares in the company which is authorized by the Minister of MITI based on the “Smooth Succession of SME Law” along with the other heirs (defined to include relatives), and is the majority shareholding owner of the company.
 - Conditions of deceased
The deceased (and relatives) must have held more than 50% of the shares of the company at the time of inheritance, and the deceased must have been the leading shareholder of the company among all relatives (excluding the heir as business successor) who owned shares in

the company.

- **Securities**
In order to adopt this rule, all the shares inherited need to be provided as securities.
- **Computation of deferral amount of inheritance tax**
Deferred tax amount will be (i) minus (ii) as follows:
 - (i) Calculated inheritance tax if the heir inherits only the companies share.
 - (ii) Calculated inheritance tax if the heir inherits 20% of (i).
- **Exemption of the deferred inheritance tax**
If the heir as the business successor keeps the shares until he or she meets certain conditions (e.g. keeps the shares until death), the deferred inheritance tax will be exempt.
- **Payment of the deferred inheritance tax**
In the following cases, the heir as the business successor needs to pay the full or a portion of the deferred inheritance tax, as well as interest tax that is accrued on the deferred payment terms.
 - If the heir as the business successor stops running the business (e.g. the heir quits as the leading director) within 5 years of the statutory payment due date of the inheritance tax, the heir must pay the total deferred inheritance tax.
 - If the heir as the business successor sells the shares after 5 years from the statutory payment due date of the inheritance tax, the heir must pay the deferred inheritance tax on the shares that were sold.
- **Anti-tax avoidance rules**
In order to prevent tax avoidance by utilizing private wealth management companies, anti-tax avoidance rules will be introduced.

(2) **Effective date**

The proposals described above will be applied to inheritances after the “Smooth Succession of SME Law” comes into effect.

2. **Revision of goodwill valuation**

The following elements for goodwill valuations of unlisted shares based on the net asset value method will be revised.

- Remuneration amount for management, and
- Interest rate applied to the gross asset value

3. **Extension of applicable period for special treatment under unified gift / inheritance tax system**

The application period for special treatment relating to purchase of the residence under unified gift / inheritance tax system will be extended for two years.

Other Proposals

1. **Deduction for contributions**

(1) **Public-interest corporation**

The deduction for contributions to a specified public interest corporation will be applied to contributions to Koueki-Syadan-Houjin and Koueki-Zaidan-Houjin for corporate tax purposes. For

individual income tax purposes, no capital gain will be deemed to accrue on contributions in kind to Koueki-Syadan-Houjin, Koueki-Zaidan-Houjin, and Syadan-Houjin and Zaidan Houjin if certain conditions are met.

(2) Contribution to public-interest corporations

For corporate tax purposes, the allowable deductible amount for contributions to public-interest corporations will be increased to 5% from 2.5% of the taxpayer's total income amount.

(3) Deduction for contributions for inhabitants tax (individual income tax) purposes

- Expansion of deductions
The deduction for contributions for inhabitants' tax purposes will be extended to cover contributions which are specified by prefectural governments or municipalities as contributions for the public interest. In addition, the restriction on the allowable deductible amount of contributions will be increased to 30% from 25% of the taxpayer's total income. The lower limit of the deduction for contributions will be decreased to 5,000 yen from 100,000 yen.
- "Furusato Nouzei" – Home Donation
When a taxpayer contributes more than 5,000 yen to a prefecture government or municipality, the following amount shall be credited against prefecture inhabitants' tax and municipal inhabitants' tax.
 - contributed amount over 5,000 yen x (90% - marginal tax rate for individual income tax purposes which is applicable to the taxpayer); or
 - 40% of (a) will be credited against the prefecture inhabitants' tax and 60% of (a) will be credited against the municipal inhabitants' tax.

The above amendment will be applicable to contributions made on or after January 1, 2009.

2. Local taxes

A new local tax regime would be introduced, instead of a reduction of the enterprise tax rate. Under the new local tax regime, the national government would collect the tax via the local governments and allocate and distribute the fund to the local governments based on the number of employees and population within the local jurisdiction.

(1) Reduction of local enterprise income tax rate

A new tax rate for local enterprise income tax purposes would apply for the fiscal year beginning on or after October 1, 2008.

- Tax rates for companies with a share capital more than 100 million yen:

Annual taxable income	Current rate	Proposed rate
JPY4,000,000 or less	3.8%	1.5%
JPY4,000,001 to JPY8,000,000	5.5%	2.2%
JPY8,000,001 or more, and liquidation income	7.2%	2.9%

- Tax rates for companies with share capital of JPY100 million or less:

Annual taxable income	Current rate	Proposed rate
JPY4,000,000 or less	5%	2.7%
JPY4,000,001 to JPY8,000,000	7.3%	4%
JPY8,000,001 or more, and liquidation income	9.6%	5.3%

Note: The lower rates would not apply to companies operating in 3 prefectures or more if its share capital is 10 million yen or more.

- Tax rates for special corporations (Tokubetsu Hojin) related to agricultural cooperative association, Healthcare, and etc:

Annual taxable income	Current rate	Proposed rate
JPY4,000,000 or less	5%	2.7%
JPY4,000,001 or more and liquidation income	6.6%	3.6%
Certain cooperative association with annual income more than 1 billion yen.	7.9%	4.3%

Note: The reduced rate would not be applicable to companies operating in 3 or more prefectures if the share capital is 10 million yen or more.

- Tax rates for corporations taxed on gross revenue:

	Current rate	Proposed rate
Tax rates for revenue of electric, gas and insurance companies	1.3%	0.7%

(2) Introduction of Special Local Corporation Tax

Outline of new special local corporation tax

- Taxpayer - A company who is required to pay existing local enterprise tax
- Tax base - Amount of local enterprise tax due (income base tax or gross revenue base tax)
- Tax rate
 - Company with a share capital of more than 100 million yen: 148%
 - Company with a share capital of 100 million yen or less: 81%
 - Company subject to enterprise tax based on gross revenue: 81%
- Filing requirement and payment - The special local corporation tax would be paid by a taxpayer through the filing of tax returns together with the local enterprise taxes.
- Collection - Local governments will collect the special local corporation tax on behalf of the national government.

Effective date

The special local corporation tax would apply to fiscal years beginning on or after October 1, 2008.

(3) Extension of the special treatment for capital decrease with no consideration

Where a company has undertaken a capital reduction in order to offset an accumulated deficit (i.e., capital decrease with no consideration), the capital amount as tax basis for purposes of the size based taxation (the local enterprise tax) is reduced accordingly. This special treatment is extended for a

further two (2) years.

3. Registration tax for the transfer of land

A New registration tax rate would apply for the registration of title transfers in connection with the sale of land on or after April 1, 2009 and the applicable term of this registration tax is extended for 3 years.

	Current rate	Registration on or after April 1, 2009	Registration on or after April 1, 2010
Registration for title transfer in connection with the sale of land	1%	1.3%	1.5%
Registration for ownership of land under a trust	0.2%	0.25%	0.3%

4. Measures to improve the tax administration

(1) Amendment to the advance ruling process

- The scope of the advance ruling process is extended to include certain transactions that will be carried out in the future and the taxpayer is able to provide documentation with regard to the transaction;
- Certain information that will identify the taxpayer is not disclosed;
- The taxpayer is allowed to request a delay in making public the requested ruling for up to 180 days (currently, a taxpayer can delay for 120 days); and
- The response period from when the request of the ruling will be made will be as soon as possible, but within three months at most.

The above amendments are applicable to requests filed on or after April 1, 2008.

(2) Amendment to the administrative appeal process (request for reinvestigation)

- The appeal period for filing a request for reinvestigation will be extended to 3 months (currently 2 months) from the date of the notice of assessment or penalty made by the tax authorities;
- The taxpayer will be allowed to appeal to the National Tax Tribunal within 2 months (currently 3 months) even if no decision has been received from the administrative agency in connection with the request for reinvestigation.
- The procedures and guidelines relating to the taxpayer's request for clarification on questions, issues and supporting evidence from the competent authority will be introduced later.

5. Other

(1) Tonnage tax regime

A company filing a blue tax return approved under the Marine Transportation Laws may elect to be taxed under tonnage tax regime. An election form must be filed with the relevant tax authority before the beginning of the applicable fiscal year.

Tonnage tax only applies to the revenue generated from the operation of vessels registered in Japan. If the net revenue from the Japanese vessel operation exceeds the standard profit per ton computed under this regime, the excess amount can be deducted from the company's taxable income. On the other hand, if the net revenue is lower than the standard profit, the company's taxable income would be adjusted to the standard profit per tone.

(2) Taxation of a public-interest corporation

There will be new legislation relating to public-interest corporations, including the tax treatment for

Japan Tax Update January 2008

national corporate tax, local corporate tax and fixed asset tax purposes. These new rules would apply to public-interest corporations incorporated under the new legislation coming into effect in December 2008.

For more information, please consult your international tax representative or contact any of the following members listed below:

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