

Estate Taxation Highlights

December 2010, Issue 3

PwC Japan Tax Newsletter

The Tax Practice of PricewaterhouseCoopers Japan (Zeirishi-Hojin PricewaterhouseCoopers) is one of the largest professional tax corporations in Japan with about 560 people. In addition to tax compliance services our tax professionals are experienced in providing tax consulting advice in all aspects of domestic/international taxation including financial and real estate, transfer pricing, M&A, group reorganization, global tax planning, and the consolidated tax system to clients in various industries.

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This newsletter is prepared based on the outline of the tax reform proposal released on December 16, 2010. 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.

The intention of this Newsletter is to provide an outline of the Japanese tax reforms for 2010 based on the Reform Act that was promulgated on March 31, 2010, 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.

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

Proposed 2011 Japanese Tax Reforms: Impact on Estate Taxation

On December 16, 2010, the Tax Commission (Zeisei Chosakai) released its proposed 2011 Tax Reform package.

With the view to close the gap between the rich and the poor, and maintain the balance of wealth in the economy, the tax base of inheritance tax and the structure of inheritance tax rates have been reviewed.

Moreover, with the intent to promote early transfer of assets to and utilizing assets effectively for the next generation, gift tax has also been reviewed.

The proposed outline of the 2011 tax reform is as follows:

1. Inheritance tax
 - (i) Reduction of basic exemption
 - (ii) Adjustment to tax rates structure
 - (iii) Others
 - a) Revision of non-taxable insurance proceeds
 - b) Revision of tax credit for minors and handicapped persons
2. Gift tax
 - (i) Revision of tax rate structure
 - (ii) Expansion of eligible donees and donors for gift tax settlement at time of inheritance

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1. Inheritance tax

(i) Reduction of basic exemption

The total net taxable amount is calculated by deducting the basic exemption from the total taxable assets. In the case where the total taxable assets do not exceed the basic exemption, no inheritance tax will be imposed. Only 4% of the decedents are currently subject to inheritance tax.

Under the current rules, the basic exemption remains unchanged despite the fact of a decrease in land price. As such, a proposal has been put forward for a reduction of the exemption amount.

	Current amount (¥)	Proposed amount (¥)
Basic exemption	50,000,000 + (10,000,000 × the number of statutory heirs)	30,000,000 + (6,000,000 × the number of statutory heirs)

Effective date

The above change will be effective on or after April 1, 2011.

(ii) Adjustment to tax rate structure

Since the prior revision of the progressive rate tax structure (including the reduction of marginal rate), the means of balancing the wealth in economy (i.e., closing the gap between the rich and the poor) has been destabilized. As such, an adjustment of the tax rate structure has been proposed by the Tax Commission.

The current Rapid calculation Inheritance Tax Table and the proposed tax table are shown below.

Current table			Proposed table		
Taxable amount (¥)	Tax rates	Deduction (¥)	Taxable amount (¥)	Tax rates	Deduction (¥)
10,000,000 or less	10%	—	10,000,000 or less	10%	—
30,000,000 or less	15%	500,000	30,000,000 or less	15%	500,000
50,000,000 or less	20%	2,000,000	50,000,000 or less	20%	2,000,000
100,000,000 or less	30%	7,000,000	100,000,000 or less	30%	7,000,000
300,000,000 or less	40%	17,000,000	200,000,000 or less	40%	17,000,000
-	-	-	300,000,000 or less	45%	27,000,000
More than 300,000,000	50%	47,000,000	600,000,000 or less	50%	42,000,000
-	-	-	More than 600,000,000	55%	72,000,000

Effective date

The above change will be effective on or after April 1, 2011.

(iii) Other

a) Revision of non-taxable insurance proceeds

Current non-taxable amount (¥)	Proposed non-taxable amount (¥)
5,000,000 × number of statutory heirs	5,000,000 × number of statutory heirs (limited to minors, handicapped and the remaining household of the decedent)

Effective date

The above change will be effective on or after April 1, 2011.

b) Revision of tax credit for minors and handicapped persons

	Current credit amount (¥)	Proposed credit amount (¥)
Credit for minors	60,000 × number of years reaching to an age of 20	100,000 × number of years reaching to an age of 20
Credit for handicapped persons	60,000 (Specially handicapped person: 120,000) × number of years reaching to an age of 85	100,000 (Specially handicapped person: 200,000) × number of years reaching to an age of 85

Effective date

The above change will be effective on or after April 1, 2011.

2. Gift tax

(i) Revision of tax rate structure

In general, gift tax rates are higher than inheritance tax rates. With the intention to promote transfers of assets to younger generation, a proposal is put forward to revise the gift tax structure.

The current Rapid calculation Gift Tax Table and the proposed tax table are shown below.

Current table			Proposed table					
All the gift			Gift from other than lineal ascendants to their descendants who are at least 20 years old			Gift from lineal ascendants to their descendants who are at least 20 years old		
Taxable amount (¥)	Tax rates	Deduction (¥)	Taxable amount (¥)	Tax rates	Deduction (¥)	Taxable amount (¥)	Tax rates	Deduction (¥)
2,000,000 or less	10%	—	2,000,000 or less	10%	—	2,000,000 or less	10%	—
3,000,000 or less	15%	100,000	3,000,000 or less	15%	100,000	4,000,000 or less	15%	100,000
4,000,000 or less	20%	250,000	4,000,000 or less	20%	250,000	6,000,000 or less	20%	300,000
6,000,000 or less	30%	650,000	6,000,000 or less	30%	650,000	10,000,000 or less	30%	900,000
10,000,000 or less	40%	1,250,000	10,000,000 or less	40%	1,250,000	15,000,000 or less	40%	1,900,000
-	-	-	15,000,000 or less	45%	1,750,000	30,000,000 or less	45%	2,650,000
More than 10,000,000	50%	2,250,000	30,000,000 or less	50%	2,500,000	45,000,000 or less	50%	4,150,000
-	-	-	More than 30,000,000	55%	4,000,000	More than 45,000,000	55%	6,400,000

Effective date

The above change will be effective on or after January 1, 2011.

(ii) Expansion of eligible donees and donors for gift tax settlement at the time of inheritance, *Sozokuji Seisan Kazei*

	Current eligible donation	Proposed eligible donation
Donors	Parents who are at least 65 years old	Parents who are at least 60 years old
Donees	Children who are presumptive heirs and at least 20 years old	Children who are presumptive heirs and at least 20 years old and grandchildren who are at least 20 years old

Effective date

The above change will be effective on or after January 1, 2011.

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

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

Partner	Kazuya Kobayashi	03-5251-2752	kazuya.kobayashi@jp.pwc.com
	Toshio Hotchi	03-5251-2876	toshio.hotchi@jp.pwc.com
Manager	Takahito Otobe	080-3756-3249	takahito.t.otobe@jp.pwc.com
	Yoko Shionoya	080-3592-6068	yoko.shionoya@jp.pwc.com
	Hiroko Suzuki	080-3592-6100	hiroko.x.suzuki@jp.pwc.com
	Yoshitaka Hamaoka	06-7670-0952	yoshitaka.hamaoka@jp.pwc.com