

Estate Taxation Highlights

Tax Legislation Update for 2013 Tax Reform

Issue 11, April 2013



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On March 29, 2013 the “The 2013 Tax Reform Bill” was approved by the upper house of the Japanese Diet.

This newsletter provides a summary of the 2013 Tax Reform regarding to the inheritance and gift taxation.
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The 2013 Tax Reform Bill submitted to the upper house of Parliament (Diet) was approved on March 29, 2013 and was announced with the cabinet order on March 30, 2013.

However, the cabinet order with regards to the revision of certain requirements for family business succession will be announced around late May.

The 2013 Tax Reform with regards to the inheritance taxation is as follows:

1. Primary points
 - (1) Reduction of basic exemption of inheritance tax
 - (2) Adjustment to tax rates structure of inheritance and gift taxes
 - (3) Revision of the definition of inheritance and gift taxpayers
 - (4) Revision of the scope of reporting of overseas assets
2. Others

1. Primary points

(1) Reduction of basic exemption of inheritance tax

The total net taxable amount is calculated by deducting the basic exemption from the aggregate value of the taxable assets. In the case where the aggregate value does not exceed the basic exemption, no inheritance tax will be imposed. Only 4% of the total inheritances currently met the filing requirement/threshold but this reform will increase it up to 6%-7%.

Under prior rules, the basic exemption remains unchanged despite a decrease in land price. Under the new rules, a reduction in the basic exemption has been put forward.

Current basic exemption (JPY)	New basic exemption (JPY)
$50,000,000 + (10,000,000 \times \text{the number of statutory heirs})$	$30,000,000 + (6,000,000 \times \text{the number of statutory heirs})$

Effective date

The above change will be effective January 1, 2015.

(2) Adjustment to tax rates structure of inheritance tax and gift taxes

The current tax tables and new tax tables are shown below.

(Inheritance tax)

Current table			New table		
Taxable amount (JPY)	Tax rates	Deduction (JPY)	Taxable amount (JPY)	Tax rates	Deduction (JPY)
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

(Gift tax)

Current table			New table					
			Gifts other than the right column			Gifts from lineal ascendants to a descendant of 20 years or older		
Taxable amount (JPY)	Tax rates	Deduction (JPY)	Taxable amount (JPY)	Tax rates	Deduction (JPY)	Taxable amount (JPY)	Tax rates	Deduction (JPY)
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 changes will be effective January 1, 2015.

(3) Revision of the definition of inheritance and gift taxpayers

The part indicated as (A) in the chart below has been reviewed. Under prior rules, when an heir (or donee) receives an asset located outside of Japan from the deceased (or donor) who had Jusho ("main place of living") in Japan, the heir (or donee) is NOT subject to Japanese inheritance or gift tax if the heir (or donee) has no Jusho in Japan and no Japanese nationality at the time of the inheritance (or gift). As such, the prior rule only looked into the status of the heir (or donee) if the heir (or donee) does not have Japanese nationality. This revision modifies to include these assets (assets outside of Japan) to be subject to inheritance/gift taxes as long as the deceased (donor) has Jusho in Japan. Thus, the new rule also looks into the status of the deceased (donor) as well.

Donor/ Deceased		Donee / Heir	Japanese resident	Non Japanese resident		No Japanese nationality	
				Japanese nationality			
				had Jusho in Japan any time within five years before commencement of inheritance (or gift).	never had Jusho in Japan any time within five years before commencement of inheritance (or gift).		
Japanese resident		<div>Assets located in Japan and abroad are taxable</div>					(A)
Non Japanese resident	had Jusho in Japan any time within five years before commencement of inheritance (or gift).						<div>Assets located in Japan are taxable</div>
	never had Jusho in Japan any time within five years before commencement of inheritance (or gift).						

Effective date

The above change is effective as of April 1, 2013.

(4) Revision of the scope of reporting of overseas assets

A new reporting requirement was introduced from January 1, 2014 for an individual resident who owns overseas assets of more than JPY 50 million in aggregate. The individual resident is required to file an annual report of these overseas assets to the Japanese tax authorities. Under this revision, securities issued by a Japanese issuer and deposited into an offshore brokerage account are within the reporting scope; whereas securities issued by a non Japanese issuer and deposited into an onshore brokerage account would no longer be within the reporting scope.

For outlines of the reporting requirements, please refer to "Estate Taxation Highlights", Issue 8 (2012 June).
(link-> <http://www.pwc.com/jp/en/taxnews-estate-taxation/assets/reporting-of-overseas-assets-e.pdf>)

Effective date

The above change will be effective for reports submitted on or after January 1, 2014.

2. Others

Other key revisions not described above are as follows:

- (1) Expansion of tax relief for taxable amount of certain residential land
- (2) Expansion of tax credits for minors and handicapped persons on the inheritance tax calculation
- (3) Expansion of eligible donees and donors for gift tax settlement at time of inheritance
- (4) Revision of certain requirements for family business succession that allows possible extension of time to pay (the cabinet order will be announced around late May)
- (5) Exemption of gift tax on an advanced lump-sum transfer of funds for education of lineal descendants

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

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