

Japan Tax Update

Transitional extension to 2011 Tax Reforms - -Impact on corporate tax payers

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The Special Taxation Measures Law and the Local Tax Law contain several concessions that, unless extended, expire on March 31, 2011. In order to avoid disruption arising from the temporary lapse of these concessions, the Parliament (Diet) has passed two transitional measures: (i) Tax Reform for the Special Taxation Measures Law to Avoid Disorder of the Life of the People; and (ii) Tax Reform Law of the Local Tax Law to Avoid Disorder of the Life of the People (together, “Transitional Tax Reform Laws”).
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Transitional Tax Reform Laws

The proposed 2011 Tax Reform was not passed by March 31, 2011, and thus the Transitional Tax Reform Laws - an extension of expiring dates of the Special Measures Law and the Local Tax Law from March 31, 2011 to June 30, 2011 - were passed on March 31, 2011.

There is sufficient uncertainty as to the timing, scope and scale of how the original 2011 Tax Reform proposals will emerge over the next few months (including, for example, the proposed 5% rate cut). Due to the political paralysis in the Diet and the priorities arising from the Government’s response to the March 11 earthquake and immediate aftermath, the Transitional Tax Reform Laws are meant as a “stop-gap” measure to maintain existing tax policy concessions during the interim period.

This newsletter provides an outline of the main features of the Transitional Tax Reform Laws affecting corporate tax payers.

- 1 A special corporate tax rate (18%) is provided for small/medium sized companies whose share capital is less than or equal to JPY100 million at the end of the fiscal year:
The special corporate reduced tax rate is extended to fiscal years ending on or before June 30, 2011.
- 2 Qualifying research and development (“R&D”) expenses are eligible for taxpayers to claim an R&D tax credit which may offset up to 40% of a corporation’s tax liability:
The special R&D credit provisions are extended to fiscal years beginning on or before June 30, 2011.
- 3 A special bad debt allowance is provided for small/medium sized companies whose share capital is less than or equal to JPY100 million at the end of the fiscal year:
The special bad debt allowance provisions are extended to fiscal years beginning on or before June 30, 2011.
- 4 Rollover relief is provided when a corporation replaces certain fixed assets:
Rollover relief is extended to gains recognized from transferring qualifying assets on or before June 30, 2011.
- 5 A special depreciation or tax credit regime is provided for specified assets acquired for energy rationalization:
The special depreciation or tax credit regime is extended to assets acquired until June 30, 2011.
- 6 A special depreciation or tax credit regime is provided for specified assets acquired to reinforce and promote business innovation:
The special depreciation or tax credit regime is extended to assets acquired until June 30, 2011.
- 7 A special depreciation regime is provided for specified assets acquired by a small/medium sized company:
The special depreciation regime is extended to assets acquired until June 30, 2011.
- 8 A special stamp tax is provided for contractual documents regarding the sale of real property and certain service contracts:
The special reduced stamp tax for contractual documents for the sale of real property and for service contracts for more than JPY10 million is extended until June 30, 2011.
- 9 A special treatment is provided for real property acquisition tax for TMKs and J-REITs:
The special treatment which provides a special deductible limit (i.e., 2/3rds of the assessed value) for properties acquired by TMKs and J-REITS is extended until June 30, 2011.

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

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