

---

# ***2019 Japan Tax Reform Proposals News Flash***

*Issue 141, December 2018*

---

## ***In brief***

On 14 December 2018, the ruling parties in Japan published their 2019 Tax Reform Proposals (“2019 Tax Proposals”). It is expected that most of the items contained in the 2019 Tax Proposals will be passed into law in March 2019.

A summary of the major items contained in the 2019 Tax Proposals is set out below. A more detailed analysis of the 2019 Tax Proposals will be provided in a subsequent Japan Tax Update.

---

## **Corporate Tax**

### **1. R&D and other tax incentives**

- (1) Revise R&D tax incentives to promote innovation by (a) increasing the limitation of tax credit amount for qualified venture corporations (i.e., from 25% to 40% of the corporate tax amount), (b) increasing the tax credit ratio, and (c) expanding the scope of open innovation R&D activities to include the cost of B2B outsourced R&D activities.
- (2) Revise requirements for special measures to vitalize local economies and extend the applicable period.
- (3) Revise requirements for special measures for foreign resource development and extend the applicable period.
- (4) Extend major tax measures for small and medium corporations; however, narrow the scope of qualified “small and medium corporations”.

### **2. International Taxation**

- (1) Amend current restrictions on interest deductions (so-called “earnings stripping rule”) to align with BEPS Action 4, including:
  - (i) Expand the scope of non-deductible interest, which includes interest paid to third parties but excludes interest that is subject to Japanese income tax in the hands of the recipient.
  - (ii) Lower the benchmark fixed ratio from 50% to 20%.
  - (iii) Modify the calculation of “adjusted income”, based on which non-deductible interest will be calculated, as well as the calculation of the non-deductible interest amount.
  - (iv) Lower the threshold for the application of the new rule.

- (2) Amend the transfer pricing legislation to align with BEPS Action 8, including:
  - (i) Clarify the definition of intangibles subject to transfer pricing requirements and introduce measures for adjusting the transfer pricing of hard to value intangibles.
  - (ii) Introduce the discounted cashflow (“DCF”) method as an approved transfer pricing methodology.
  - (iii) Extend the current statute of limitations for transfer pricing assessments from six years to seven years.
- (3) Amend the current controlled foreign corporation (“CFC”) legislation including:
  - (i) Narrow the definitions of a paper company and expand the definition of a cashbox company.
  - (ii) Relax the threshold for the unrelated entity test (a component of the CFC “economic activity test”) applicable to foreign related corporations primarily engaged in the insurance industry.
  - (iii) For foreign related corporations for which the consolidated tax return system or pass through tax treatment is applicable, clarify (a) the calculation of income for entity based aggregation, (b) the threshold effective tax rate, and (c) the use of foreign tax credits.
  - (iv) Revise the scope of passive income aggregation.
- (4) Establish the automatic exchange of information (for bank accounts and country by country reports) with Taiwan.
- (5) Revise the scope of foreign corporate tax that qualifies for the foreign tax credit regime.
- (6) Introduce several measures to align tax legislation with treaty processes.

### **3. Corporate reorganizations**

- (1) Revise the requirements for tax qualified share for share exchanges (“*kabushiki kokan*”) followed by the merger of the parent into a subsidiary.
- (2) Revise the requirements for consideration in tax qualified mergers, corporate split offs, and share for share exchanges; and the requirements for consideration for income or loss deferrals to shareholders.

### **4. Tax administration procedures**

- (1) Align guidance on electronic filing of local corporate tax returns with guidance provided for electronic filing of national corporate tax returns (introduced in the 2018 Tax Reform).
- (2) Introduce a formal system for conducting information collection procedures by the tax authorities.
- (3) Clarify the corporate tax treatment of virtual currencies.
- (4) Revise the requirements for resolution of directors’ incentive remuneration.

## **Individual Income Tax / Inheritance Tax**

### **1. Individual income tax proposals**

- (1) Introduce a new income tax credit for housing loans for individuals who acquire qualified residences that will be subject to the 10% consumption tax rate.

- (2) Revise the scope and applicable requirements for tax exempt measures applied to dividend income or capital gains arising from securities accounts (“NISA”).
- (3) Revise the withholding obligation for dividends on listed stock.
- (4) Revise the scope and applicable requirements for tax qualified stock options (i.e., the treatment of deferred income arising from tax qualified stock options).
- (5) Clarify the income tax treatment of virtual currencies.

## **2. Inheritance and gift taxation**

- (1) Introduce a tax payment grace period (postponement) of inheritance tax levied on assets acquired by business succession for individual business operators.
- (2) Introduce a new tax regime for business succession applicable to individual business operators.
- (3) Expand the scope of tax exempt lump sum gifts for marriage, children or education.

### **Local Tax**

Revise the corporate business tax system to rebalance revenue collections by region.

### ***Let’s talk***

For a deeper discussion of how this issue might affect your business, please contact:

#### ***PwC Tax Japan***

Kasumigaseki Bldg. 15F, 2-5, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo 100-6015

Tel: 81-3-5251-2400

Email: [pwcjapan.taxpr@jp.pwc.com](mailto:pwcjapan.taxpr@jp.pwc.com)

[www.pwc.com/jp/e/tax](http://www.pwc.com/jp/e/tax)

Akemi Kito

Partner

81-3-5251-2461

[akemi.kitou@pwc.com](mailto:akemi.kitou@pwc.com)

Kimihito Takano

Partner

81-80-1114-4491

[kimihito.k.takano@pwc.com](mailto:kimihito.k.takano@pwc.com)

Ryann Thomas

Partner

81-3-5251-2356

[ryann.thomas@pwc.com](mailto:ryann.thomas@pwc.com)

Yumiko Arai

Director

81-3-5251-2475

[yumiko.arai@pwc.com](mailto:yumiko.arai@pwc.com)

PwC Tax Japan, a PwC member firm, is one of the largest professional tax corporations in Japan with about 680 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 reorganisation, global tax planning, and the consolidated tax system to clients in various industries.

At PwC, our purpose is to build trust in society and solve important problems. We’re a network of firms in 158 countries with more than 2,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at [www.pwc.com](http://www.pwc.com).

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2018 PwC Tax Japan. All rights reserved.

PwC refers to the PwC network member firms and/or their specified subsidiaries in Japan, and may sometimes refer to the PwC network. Each of such firms and subsidiaries is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.