
2019 Japan Tax Reform Proposals

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In brief

On 14 December 2018, the ruling parties in Japan published their 2019 Tax Reform Proposals (“2019 Proposals”). The 2019 Proposals advocate innovation in both productivity and management of human resources to achieve sustainable growth. To achieve those objectives, the 2019 Proposals include corporate tax measures intended to promote investment in innovation, and to encourage investment by small to medium size enterprises (“SMEs”) in improving business productivity.

In addition, the 2019 Proposals include amendments consistent with the recommendations of the OECD’s Base Erosion and Profit Shifting (“BEPS”) Action Plan, with the stated purpose of supporting the global expansion of Japanese companies while limiting tax avoidance. Finally, measures are proposed to rebalance tax revenues between regions, and to improve tax administration through increased administrative efficiency.

On 21 December 2018, the Cabinet approved the 2019 Proposals. It is expected that most, if not all, of the items contained in the 2019 Proposals will be passed into law in March 2019.

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1. Stated policy targets for the 2019 Proposals

The 2019 Proposals are focused on sustainable economic growth in the face of a decreasing birth rate and rapidly aging population. To achieve this economic objective, the 2019 Proposals promote innovation in both productivity and management of human resources.

Specifically, the 2019 Proposals include corporate tax measures to increase investment in innovation, and to increase investment by SMEs to improve business productivity.

In addition, the 2019 Proposals include amendments consistent with the BEPS recommendations contained in Action 4 and Action 8, with the stated purpose to support the global expansion of Japanese companies while at the same time limiting tax avoidance.

Finally, measures are proposed to rebalance tax revenues (enterprise tax) by region, as well as to improve tax administration to increase administrative efficiency.

2. Tax incentives, corporate reorganizations, and others

(1) R&D tax incentives

Under the 2019 Proposals, R&D tax incentives (the R&D tax credit system) will be revised to promote innovation by (a) increasing the tax credit ratio, (b) increasing the limitation of tax credits for qualified venture corporations (i.e., from 25% to 40% of the corporate tax amount), and (c) expanding the scope of open innovation R&D activities to include the cost of B2B outsourced R&D activities.

i) R&D tax credits (permanent measures)

The tax credit ratio formula will be modified as shown in the following table.

Tax credit ratio formula

Movement in R&D ratio (increase or decrease in ratio)	Tax credit ratio
8% <	$9.9\% + (\text{movement in R\&D ratio} - 8\%) \times 0.3$ (upper limit of 10%)
8% \geq	$9.9\% - (8\% - \text{movement in R\&D ratio}) \times 0.175$ (lower limit is 6%)

The upper limit of the tax credit ratio of 10% is currently temporarily increased to 14% until March 31, 2019 (and is not applicable to tax years beginning on or after April 1, 2019). Under the 2019 Proposals, this applicable period will be extended for a further two years.

In addition, the tax credit limitation for certain R&D venture corporations¹ will be increased from the current rate of 25% to 40% of the corporate tax liability.

ii) R&D tax credits for corporations with higher R&D expenditure ratios

A preferential tax credit ratio and tax credit limitation is currently temporarily provided to taxpayers with higher R&D expenditure ratios (more than 10% of average gross sales). Under the 2019 Proposals, these preferential measures will be incorporated into the R&D tax credit system of 2-1-i above, and the applicable period will be extended for a further two years.

The formula of the preferential tax credit ratio for corporations with higher R&D expenditure ratios will be modified as shown in the following table.

Formula of preferential tax credit ratio for corporations with higher R&D expenditure ratios

Movement in R&D ratio (increase or decrease in ratio)	Tax credit ratio
8% <	$9.9\% + (\text{movement in R\&D ratio} - 8\%) \times 0.3 \times \alpha$ (upper limit is 10%)
8% \geq	$9.9\% - (8\% - \text{movement in R\&D ratio}) \times 0.175 \times \alpha$ (lower limit is 6%)
	$\alpha = \text{ratio of R\&D expenditure to average gross sales}$

¹ A corporation established in the past 10 years or less with carry forward losses and that is not a subsidiary of a large corporation.

The preferential tax credit limitation² remains the same, but the applicable period will be extended for a further two years.

Tax credit limitation	Additional tax credit (no change to the current rule)
25% of corporate tax liabilities	$(\alpha - 10\%) \times 2$ (upper limit is 10%)
	α = ratio of R&D expenditure to average gross sales

(iii) “Open innovation” R&D tax credits

The scope of R&D expenditure that qualifies as “open innovation” will be expanded to include B2B outsourced R&D activities (i.e., R&D conducted jointly with certain R&D focused venture corporations, or R&D expenditure arising from contracts with certain R&D focused venture corporations). In addition, 25% of the R&D tax credit ratio will be applied to R&D expenditures involving R&D focused corporations (i.e., joint R&D and contracted R&D); currently, the ratio is 20%.

The tax credit limitation for open innovation R&D expenditure will be increased from the current rate of 5% to 10%.

(iv) R&D incentives for SMEs

The current special measures providing a preferential tax credit limitation (an upper limit of 35% of corporate tax liabilities) where the ratio of increased R&D expenditure exceeds 5%, will be modified (the threshold will be increased from 5% to 8%) and the applicable period will be extended for a further two years.

The current special measures providing a preferential tax credit ratio for an increased R&D expenditure ratio (more than 10% of average gross sales) will be modified in the same way as (ii) above.

Current		Proposed	
Basic rules		Basic rules	Temporary measures will be extended
Tax credit ratio	Tax credit ratio is in the range of 6% to 14% (for SMEs, 12% to 17%) depending on the increase or decrease in the ratio of R&D expenditure	Tax credit ratio	The formula for the tax credit ratio is revised, while the range is unchanged at 6% to 14% (for SMEs, 12% to 17%) <i>For a corporation with a higher R&D expenditure ratio (more than 10%), a preferential tax credit ratio is applied</i>
Tax credit limitation	25% of corporate tax liabilities (Temporary measures) · Up to 10% will be added for a corporation with a higher R&D expenditure ratio (10%), <u>option to the temporary measures below</u> · For SMEs, up to 10% will be added if the movement in the R&D expenditure is more than 5%	Tax credit limitation	25% of corporate tax liabilities, 40% of corporate tax liabilities for R&D venture corporations (Temporary measures) · Up to 10% will be added for a corporation with a higher R&D expenditure ratio (10%) · For SMEs, up to 10% will be added if the increase in the R&D expenditure ratio exceeds 8%
Temporary measures		Open innovation	
Tax credit amount	(R&D expenditures – gross sales x 10%) x (R&D expenditure ratio – 10%) x 20%	Tax credit for R&D expenditure on open innovation	
Tax credit limitation	Up to 10% of corporate tax liabilities in addition to 25%	Tax credit ratio	20% (joint or contracted R&D with private corporations), 25% (joint or contracted R&D with R&D venture corporations) or 30% (joint or contracted R&D with public institutions)
Tax credit ratio	20% (joint R&D with private corporations, contracted R&D with SMEs) or 30% (joint R&D or contracted R&D public institutions)	Tax credit limitation	10% of corporate tax liabilities in addition to the above
Tax credit limitation	5% of the corporate tax liabilities in addition to the above	Scope of R&D expenditure	Joint R&D with public institutions, R&D venture corporations , or with private corporations, contracted R&D with public institutions, R&D venture corporations, private corporations or SMEs, royalties for use of intellectual property to SMEs, etc.
Scope of R&D expenditures	Joint R&D with public institutions or with private corporations, contracted R&D with public institutions or SMEs, royalties for use of intellectual property to SMEs, etc.		

² $(\text{R\&D ratio} - 10\%) \times 2$ (upper limit is 10%) will be added to the tax credit limitation of 25%.

(2) Other tax incentives

Current special measures aimed at revitalizing local economies, and current special measures for foreign resource development will be extended for further years, with some amendments to the requirements for eligibility.

Other significant tax relief for SMEs, such investment incentives to improve productivity will be extended for further years.

(3) Corporate reorganizations

(i) Requirements for tax qualified squeeze-outs

The requirements for tax qualified squeeze-outs (including share for share exchanges (“*kabushiki kokan*”), buy outs, etc.) followed by a downstream merger (merger of the parent into a subsidiary) will be reviewed. Currently, a squeeze-out followed by an upstream merger may be tax qualified; however, a squeeze-out followed by a downstream merger will cause the squeeze out to lose tax qualified status. Under the 2019 Proposals, the latter may also be treated as a tax qualified squeeze out.

(ii) Expand tax qualified consideration in triangular mergers, corporate split offs, and share for share exchanges

Currently, in a triangular merger, corporate split off, or share for share exchange, shares of a 100% direct parent of an acquiring company are treated as tax qualified consideration. Under the 2019 Proposals, tax qualified consideration will be expanded to include shares of an indirect 100% parent of the acquiring company.

(4) Other tax measures

(1) Revise the requirements for approving directors’ incentive remuneration.

To claim a deduction for incentive remuneration paid to directors, for corporations filing a securities report under the Japanese Financial Instruments and Exchange Law, certain requirements in relation to resolution should be met. Under the 2019 Proposals, these requirements will be reviewed.

(2) Corporate tax treatment of virtual currencies

The corporate tax treatment of virtual currencies will be clarified to be aligned with the accounting guidelines for virtual currencies. For tax years ending on or after April 1, 2019, the following tax treatment will be applied.

- (a) A virtual currency, which is traded on an open market will be valued using the mark-to-market method and any valuation gain or loss will be recognized at year end.
- (b) The cost per unit will be calculated using the average cost method (default method) or weighted average cost method.
- (c) Capital gains or losses from the sale of a virtual currency will be recognized at the contract date.
- (d) For unsettled virtual currencies on margin transactions held at year end, gains or losses on deemed settlements will be recognized.

3. Proposals for SMEs

Under the 2019 Proposals, the applicable period for certain major tax measures will be extended, however, the scope of qualified SMEs for investment incentives as provided for under the Special Taxation Measures Law will be narrowed.

(1) Tax incentives for SMEs

The applicable period of major investment incentives for SMEs will be extended, while certain conditions to qualify for some incentives (ex., the scope of qualified assets of qualifications of the applicant) will be revised.

A new incentive for investment in disaster prevention measures will be introduced for SMEs. To qualify for the incentive, the taxpayer’s investment must be part of a plan approved pursuant to the revised SMEs Management Reinforcement Law.

(2) Scope of qualified SMEs

The preferential tax benefits for SMEs are contained in the Corporate Tax Law (for permanent measures) and the Special Taxation Measures Law (for temporary measures). However the definition of SMEs under each is slightly different.

For Corporate Tax Law purposes, a corporation with capital of 100 million yen or less is still deemed a large corporation and does not qualify as an SME if it is 100% owned directly or indirectly by a large corporation³. On the other hand, for Special Taxation Measures Law purposes, a corporation with capital of 100 million yen or less is deemed a large corporation and does not qualify as an SME if it is directly owned 50% or more by a large corporation⁴ or two or more large corporations directly own two thirds of the equity of the corporation.

Under the 2019 Proposals, the Corporate Tax Law SME criterion will be added to the current SME criterion under the Special Taxation Measures Law. As a result, the scope of taxpayers that qualify as SMEs under the Special Taxation Measures Law will be narrower than those that qualify under the Corporate Tax Law.

4. International taxation

In line with the recommendations in BEPS Action 4 (Limiting Base Erosion Involving Interest Deductions and Other Financial Payments), BEPS 8 (Aligning Transfer Pricing Outcomes with Value Creation: Intangibles), and the revised OECD Transfer Pricing Guidelines (OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2017), restrictions on interest deductions (“earnings stripping rule”) and the transfer pricing legislation will be revised by the 2019 Proposals.

The current CFC regime was substantially revised by the 2017 tax reform, which applied to tax years of CFCs beginning on or after April 1, 2018. This amendment was followed by the US corporate tax reform at the end of 2017. Taking into consideration the US tax reform and investment structure in the US, to the 2019 Proposals will narrow the application of the CFC rules to certain “Paper Companies”, as well as clarify the application of the CFC rules to US subsidiaries forming part of a US tax consolidation group and to US subsidiaries treated as pass-through entities for US tax purposes.

(1) Restrictions on interest deductions (“earnings stripping rule”)

The current earnings stripping rule will be revised to align with BEPS Action 4, including:

- (i) Expansion of 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) Lowering of the benchmark fixed ratio from 50% to 20%.
- (iii) Modification of 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) Lowering of the threshold for application of the new rules.

The above amendments will be applied to tax years beginning on or after April 1, 2020.

³ A corporation with capital amount of JPY 500 million or more, a mutual corporation with employees of over 1,000 or a trustee corporation.

⁴ A corporation with capital amount of JPY 100 million or over or a corporation of no capital with employees of over 1,000

Factor	Proposed amendments
Scope of interest	<p>Net interest expense (interest expense (other than “excluded interest expense” below) in excess of interest income)</p> <p><u>Excluded interest expense</u></p> <p>(1) Interest expense on specified bonds (issued to limited number of unrelated parties and not the public)</p> <ul style="list-style-type: none"> · The interest payment is subject to Japanese taxation in the hands of the recipient, or · 95% of the interest expense is for bonds issued in Japan or 25% of the interest expense is for bonds issued outside Japan. <p>(2) Other interest expense</p> <ul style="list-style-type: none"> · The interest payment is subject to Japanese taxation in the hands of the recipient or paid to qualifying public service corporations · Interest on back-to-back repos
Adjusted taxable income	<ul style="list-style-type: none"> · Starting from taxable income, exempted dividends will no longer be included, while withholding tax claimed as tax credits will be added · Adjusted income for entities that operate under <i>tokumei kumiai</i> (TK) contractual arrangements will be modified.
Limitation of deduction	Net interest expense exceeds 20% (currently 50%) of adjusted taxable income
Limitations on application (<i>de minimis</i> and group basis)	(1) Net interest expense in a fiscal year is 20 million yen or less; or (2) the aggregated net interest expense on a Japanese corporate group basis (where there is more than a 50% capital relationship) is 20% or less of the aggregated adjusted income on the same group basis.
Carry over of non-deductible interest expense	Similar to the current rules, the non-deductible interest incurred in the past seven years will be deductible up to 20% (currently 50%) of the current adjusted taxable income

(2) Transfer pricing legislation

The current transfer pricing rules will be revised to align with BEPS Action 8 and the revised OECD transfer pricing guidelines including:

- Clarification of the definition of intangibles subject to transfer pricing legislation and introduction of measures for adjusting the transfer pricing of hard to value intangibles (“HDVI”).
- Introduction of the discounted cash flow (“DCF”) method as an approved transfer pricing methodology.
- Extension of the current statute of limitations for transfer pricing assessments from six years to seven years.

The above amendments will be applied to tax years beginning on or after April 1, 2020.

Factor	Proposed amendments
Clarification of intangibles	Assets, other than tangible assets and financial assets, for which consideration should be made on arm’s length pricing rules in any business transaction (such as sale, lease, etc.) involving the asset
Arm’s length pricing method	DCF will be added as a methodology available to taxpayers as well as a basis for presumptive taxation by the tax authorities
Introduction of transfer pricing adjustment measures for HTVI	The tax authorities will be able to make tax assessments for transactions involving HTVI to the extent that the <i>ex post</i> valuation differs by 20% or more from the actual transaction value (based on the <i>ex ante</i> valuation). However, this tax assessment will not be made when a taxpayer submits documents that prove the difficulties of an accurate <i>ex ante</i> valuation.
Extend the statute of limitations	The statute of limitations for transfer pricing will be extended from the current six years to seven years (for both taxpayers requesting downwards correction and assessments by the tax authorities)
Adjustment methodology	The interquartile range will be approved as statistical measure for calculating a transfer pricing adjustment when necessary to achieve arm’s length pricing by reference to the profitability of comparable transactions

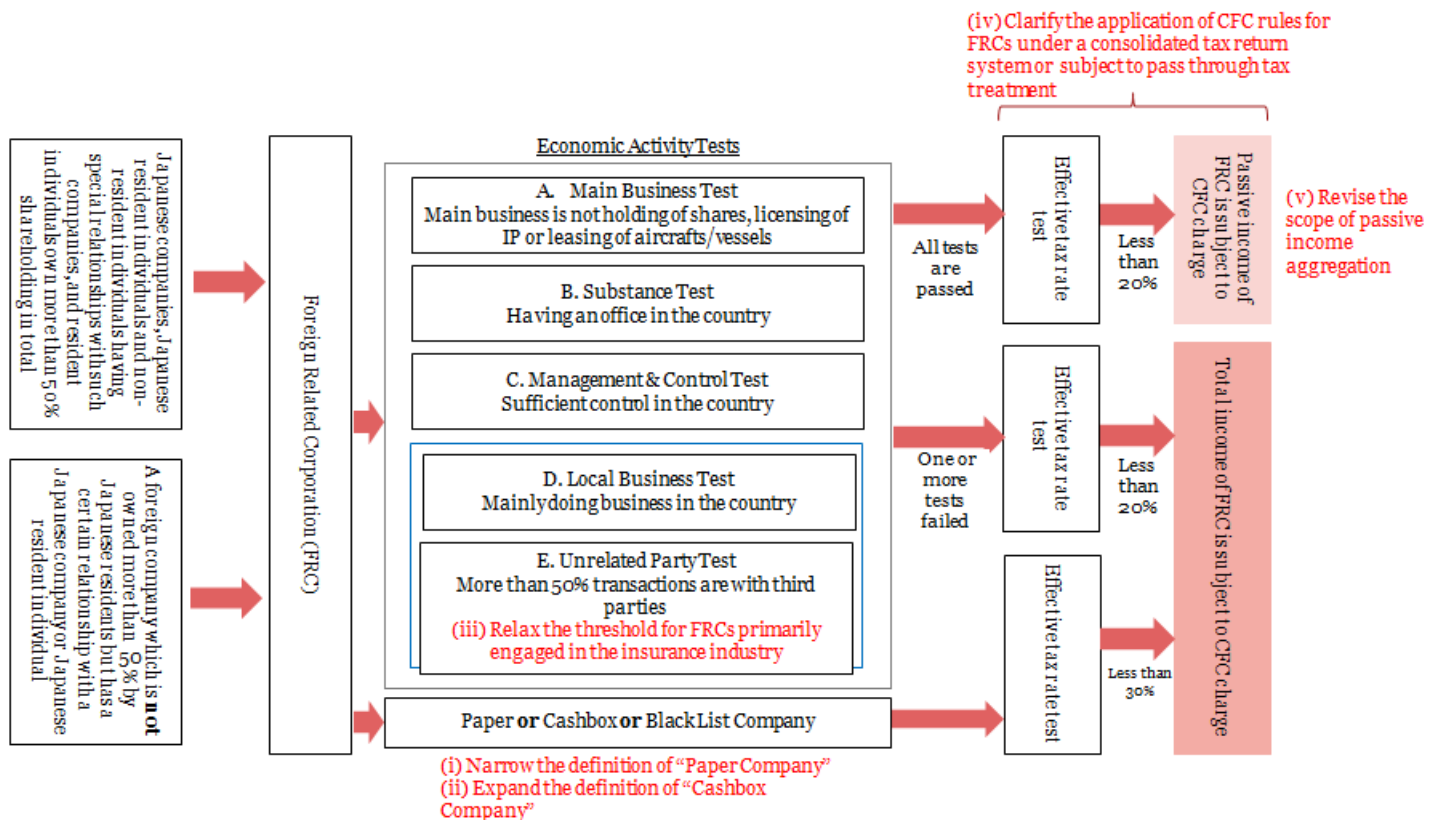
(3) Controlled foreign corporation (“CFC”) legislation

The current CFC regime will be amended including:

- (i) Narrowing of the definition of “Paper Company” by excluding specified holding companies, real estate holding companies and resource development project companies.
- (ii) Expansion of the definition of “Cashbox Company”.
- (iii) Relaxation of 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.
- (iv) For foreign related corporations under a consolidated tax return system or subject to pass through tax treatment, clarification of (a) the calculation of income for entity based aggregation, (b) the calculation of the threshold effective tax rate, and (c) the use of foreign tax credits.
- (v) Revision of the scope of passive income aggregation.

Amendment (ii) above will be applied to CFCs with tax years beginning on or after April 1, 2019. The remaining amendments will be applied to CFCs with tax years beginning on or after April 1, 2018 for Japanese parent corporations’ aggregated taxable income for tax years ending on or after April 1, 2019.

The amendments are shown in red in the CFC analysis chart below.



Factor	Proposed amendments
Scope of Paper Company / Cashbox Company	
	A FRC satisfying any of the following conditions will be excluded from the definition of Paper Company
Share holding company	<p>(1) A holding company ("HC") that satisfies the following conditions</p> <p>(i) A FRC primarily engaged in the holding of shares of subsidiaries*, (a) where more than 95% of the FRC's total asset value consists of the shares of the subsidiaries and monetary assets, and (b) more than 95% of the FRC's total revenue comes from dividends paid by those subsidiaries and interest on deposits.</p> <p>* A subsidiary is a FRC located in the same jurisdiction and held 25% or more by the HC</p> <p>(ii) A FRC primarily engaged in the holding of shares of specified subsidiaries**, (a) controlled and managed by a management company*** located in the same jurisdiction, (b) performing functions essential to the carrying out of the business by the management company in the same jurisdiction, (c) more than 95% of the FRC's total asset value consists of the shares of the specified subsidiaries and monetary assets, and (d) more than 95% of the FRC's total revenue comes from dividends paid by the specified subsidiaries, proceeds from the sale of shares in the specified subsidiaries and interest on deposits.</p> <p>** A specified subsidiary is a FRC subject to passive income tax aggregation or a FRC controlled and managed by the management company, both located in the same jurisdiction as the HC</p> <p>*** A management company is a FRC that satisfies the economic activity tests and its directors or employees are engaged in all the tasks of the business in its head office.</p>
Real estate holding company	<p>(2) Real estate holding company ("RHC")</p> <p>(i) A FRC primarily engaged in holding real estate (located in the same jurisdiction as its head office of the FRC) or holding shares of specified subsidiaries†, (a) controlled and managed by the management company‡ located in the same jurisdiction, (b) performs functions essential to carrying out the real estate business by the management company in the same jurisdiction, (c) more than 95% of its total assets value consists of real estate, shares of specified subsidiaries and monetary assets, and (d) more than 95% of its total revenue earned by income from real estate, specified subsidiaries, and interests on deposit.</p> <p>† A specified subsidiary is a FRC controlled and managed by the management company located in the same jurisdiction as the RHC</p> <p>(ii) A FRC (located in the same jurisdiction as its management company‡) primarily engaged in the holding of real estate (located in the same jurisdiction and used by the management company), (a) controlled and managed by the management company, (b) performs functions essential to carrying out the business of the management company in the same jurisdiction, (c) more than 95% of the FRC's total asset value consists of real estate and monetary assets, and (d) more than 95% of the FRC's total revenue comes from income from the real estate and interest on deposits.</p> <p>‡ A management company is a FRC that satisfies the economic activity tests and its directors or employees are engaged in all the tasks of the business of its head office.</p>
Resource development project company	<p>(3) Resource development project company ("RDPC")</p> <p>A FRC primarily engaged in the holding of shares of specified subsidiaries††, providing funding raised from unrelated parties to the specified subsidiaries, or holding real estate (located in the same jurisdiction as the RDPC), (a) controlled and managed by a management company‡‡ located in the same jurisdiction, (b) performs functions essential to carrying out the business (resource development or social infrastructure development) of the management company in the same jurisdiction, (c) more than 95% of the FRC's total asset value consists of the shares of the specified subsidiaries, loans to the specified subsidiaries, real estate and monetary assets, and (d) more than 95% of the FRC's total revenue comes from dividends paid by the specified subsidiaries, interest on the loans to the specified subsidiaries, income from the real estate and interest on deposits.</p> <p>†† A specified subsidiary is a FRC located in the same jurisdiction, held 10% or more by the RDPC, and performing functions essential to carrying out the business (resource development or social infrastructure development) by a management company in the same jurisdiction</p> <p>‡‡ A management company is a FRC that satisfies the economic activity tests and whose directors or employees are engaged in all the tasks of the business (resource development or social infrastructure development) in its head office. A FRC will be also included if its directors or employees are jointly engaged in all the tasks of the business of other FRCs.</p>
FRC of Insurance holding company	<p>(1) A FRC will be excluded from the definition of Paper Company if it is 100% held directly or indirectly by a Japanese insurance holding company.</p> <p>(2) The condition that the directors or employees are jointly engaged in all the tasks of the business will be added to the business management and control threshold test for a specified insurance trustee</p>
Scope of cash box	The definition of a Cashbox Company will be expanded to include a FRC with insurance premiums from unrelated parties of less than 10% of gross premiums.

Factor	Proposed amendments
Application of CFC rules to FRC under a consolidated tax return system or subject to pass through tax treatment	
Calculation of income for entity based aggregation	Foreign income will be calculated as the sum of (a) foreign income without applying the tax consolidation or pass through provisions and (b) non-taxable income.
Foreign tax credits	The amount of foreign tax that qualifies for foreign tax credits will be calculated as foreign tax payable on foreign income without applying the tax consolidation or pass through provisions
Calculation of the threshold effective tax rate	The effective tax rate will be calculated by the ratio of foreign tax as calculated above to the foreign income as calculated above
Others	
Scope of passive income	Certain insurance premiums will be added to passive income (not applicable to foreign financial subsidiaries)

(4) Other tax measures

- (i) The system of automatic exchange of information for bank accounts and country by country reports with Taiwan will be introduced.
- (ii) The scope of foreign corporate tax that qualifies for foreign tax credits will be revised.
- (iii) Several measures will be introduced to implement provisions of tax treaties which include provision dealing with pass through entities.

5. Tax administration

(1) Electronic filing of local corporate tax returns

Under the 2019 Proposals, (i) filing of documents attached to the local corporate tax returns by optical disc device will be approved, and (ii) filing of documents attached to the local corporate tax returns in hard copy with approval of the local government will be available where electronic filing is not possible. These amendments are proposed to align with the procedures provided for the electronic filing of documents to be attached to the national corporate tax returns (introduced in the 2018 Tax Reform).

(2) Information collection procedures

A formal system for collecting information from business operators (individuals and corporations) by the tax authorities will be introduced effective January 1, 2020.

6. Local taxes

Currently, as a provisional measure, a part of the local business tax is collected as the Local Corporate Special Tax. The purpose of this provisional measure is to balance the revenues collected among local governments. This measure will be abolished for tax years beginning on or after October 1, 2019. However, it is still considered necessary to be able to reallocate local tax revenues, and therefore, under the 2019 Proposals, the Special Corporate Business Tax will be introduced. This will replace the current Local Corporate Special Tax, although the tax rate will be slightly different.

Similar to the Local Corporate Special Tax, the Special Corporate Business Tax will be levied on the tax amount of the local business tax (income portion) and collected by the local government. However, under the Local Corporate Special Tax, the local corporate tax rate, for tax years beginning on or after October 1, 2019 will be decreased as follows.

	Local business tax rate		Special Corporate Business Tax
	Current*	Proposed	Proposed
Corporation with capital amount more than ¥100 M			
Annual income ¥4 M ≧	1.9%	0.4%	
¥4 M ~ ¥8 M	2.7%	0.7%	260%**
¥8 M <	3.6%	1%	
Corporation with capital amount ¥100 M or less	Current*	Proposed	Proposed
Annual income ¥4 M ≧	5%	3.5%	
¥4 M ~ ¥8 M	7.3%	5.3%	37%**
¥8 M <	9.6%	7%	
Special corporation	Current*	Proposed	Proposed
Annual income ¥4 M ≧	5%	3.5%	
¥8 M <	6.6%	4.9%	34.5%**
Corporation levied on revenue basis taxation (Electricity, Gas, Insurance)	Current*	Proposed	Proposed
	1.3%	1%	30%**

*The rate applicable from tax years beginning on or after October 1, 2019 under the current local tax law.

**The rate is applied to the local business tax liabilities (income base only)

7. Proposals impacting individuals

(1) Housing loan credit

A new income tax credit for housing loans for individuals who acquire qualified residences that will be subject to the 10% consumption tax rate will be introduced. Under this amendment, the tax credit will be available for 13 years if the years of residence start between October 1, 2019 and December 31, 2020.

(2) NISA

The scope and applicable requirements for tax exempt measures applied to dividend income or capital gains arising from securities accounts ("NISA") will be revised.

(3) Tax qualified stock options

The applicable person for tax qualified stock options (i.e., the treatment of deferred income arising from tax qualified stock options) will be expanded to include those other than directors or employees of the company issuing the stock options ("Issuer"). The Issuer should be a designated venture company pursuant to the revised SMEs Management Reinforcement Law.

(4) Virtual currencies

For individual income tax purposes, income from virtual currencies is classified as miscellaneous income. Under the 2019 Proposals, the calculation of deductible costs is clarified as the moving average cost method or the weighted average cost method.

Let's talk

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

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