

FY2008 Tax Reform (Main Points)

Ministry of Finance

20 December 2007

With a view to realizing sustainable invigoration of economy and society, while taking into account the current economic and fiscal environment, the FY2008 tax reform will take appropriate measures regarding tax systems for corporation, SMEs, financial and securities transactions, land and housing, etc. From the viewpoint of promoting activities for public interests undertaken by the private sector, it will also take tax measures corresponding to the reform of public interest corporations system and review the tax system for donation. In addition, measures will be taken from the viewpoint of reducing disparities in the fiscal strength among local governments. Concrete measures are summarized below.

Taxation of corporation

- Regarding tax treatment of R&D, in addition to the current tax credit based on total R&D spending (up to 20% of the amount of corporation tax), create a framework to provide a tax credit selectively applicable based either on incremental R&D spending or R&D spending over 10 percent of sales (up to 10% of the amount of Corporation Tax).
- For the tax system for strengthening information infrastructure, add to its scope such software that connects fragmented information system among divisions or companies, and lower the minimum investment amount to ¥0.7 million (from ¥3 million).
- On depreciation schemes, streamline asset classification and review their respective statutory useful lives. Also, simplify procedures to apply for the special reduction scheme of statutory useful life.

Taxation of SMEs

- For the so-called "angel" system, introduce a new scheme to apply the deduction of donation, up to ¥10 million, when buying shares of certain designated SMEs within 3 years since their establishment.
- As for the special tax credit for education and training costs, focus its target on SMEs and transform it into a system where certain portion of total education and training costs may be credited if the ratio of such costs to the total labor costs exceeds 0.15%.
- Take measures to support efforts by enterprises that engage in business activities to invigorate local communities by enhancing synergistic integration between agriculture, forestry and fisheries and commerce and industry.

Taxation of financial and securities transactions

- Abolish the current reduced tax rate at 7% (10% if combined with Local Inhabitants Tax) for capital gains and dividends on listed shares from January 2009, with the rate being at 15% (20% if combined with Local Inhabitants Tax). With a view to making a smooth transition to the new system, as an exceptional measure, apply 7% (10% if combined with Local Inhabitants Tax) rate to capital gains not over ¥ 5 million and dividends not over ¥ 1 million, for the period of 2 years, i.e., in 2009 and 2010.
- From 2009, introduce a new system to allow aggregation of capital loss and dividend income from listed shares.

Taxation of land and housing

- Regarding the reduced rate of Registration and License Tax on land sales, extend its application for 3 years, with maintaining the current rate for one year and gradually scaling back the rate reduction afterwards.

➤ Up to March 31, 2009	10/1000
➤ Up to March 31, 2010	13/1000
➤ Up to March 31, 2011	15/1000
- Introduce a new preferential tax scheme (a special treatment to the deduction of housing loan) to promote home improvements for better energy saving performances.
- Introduce a new scheme for Registration and License Tax on newly-built long-life houses ("200-year houses") that reduces the rate on registration for preservation of ownership right to 1/1000 (from 4/1000).

Reform of public interest corporations, tax on donation

- For public interest incorporated association and foundation, exclude from taxation income from their business activities for public interests, and treat all of them as Qualified Public Interest

Corporations, donations to which are eligible for preferential treatment.

- Regarding the maximum deductible amount of donation to Qualified Public Interest Corporations, raise such amount based on income to the amount corresponding to 5/100 of income (from 2.5/100).
- Under the authorized NPO system, relax the requirements for authorization, and alleviate burden of application.

International taxation

- Take measures to prevent international tax avoidances, and clarify tax treatment of inward foreign investments.

Measures to facilitate tax payment

- Expand the scope of documents exempt from submission in e-filing.
- Put in place information reporting system for foreign exchange margin trading (FX trading), etc.

Reduction of disparities in local fiscal strength

- As a temporary measure pending integrated tax reform including consumption tax, separate off specified portion of Enterprise Tax to create a new Local Special Corporate Tax and Local Special Corporate Transfer Tax.

Others

- For Gasoline Tax, Local Road Tax, and Motor Vehicle Tonnage Tax, extend for 10 years the application of the special rates.
- Introduce a new special tax treatment to the amount of income earned by the operation of Japanese flag-flying vessels by enterprises engaging in international maritime transport (so-called "Tonnage Tax").

* * *

NB:

As for tax system for succession of business, in the FY2009 tax reform, "a scheme to postpone payment of inheritance tax on stocks without quoted market price" is to be created (to be retroactively applied to inheritance, etc on or after the enforcement date (preliminarily set at October 1, 2008) of the " Law to smoothen succession of small- and medium-sized businesses ").

* * *

(Reference)*

Preliminary estimates of revenue impacts of FY 2008 Tax Reform (in initial year; national internal taxes)

	(Billion Yen)
Tax credit for R&D	- 33
Measures for information infrastructure	+ 23
Tax credit for education and training costs	+ 10
Others	- 4
Total	- 4

* Figures are rounded and subject to changes.