

FY2016 Tax Reform (Main Points)

(Cabinet decision on December 24, 2015)

In light of the current economic situation etc., the government will implement the growth-oriented corporate tax reform, etc. from the viewpoint of securing the realization of virtuous economic cycle, and will introduce the reduced tax rate system for consumption tax in line with the consumption tax increase with consideration given to low income earners. At the same time, the government will also address the measures for the declining birthrate and educational reform as well as overcoming Population Decline and Vitalizing Local Economy, while taking tax measures to refurbish international taxation rules into ones suitable for the global business model. Moreover, tax measures to support reconstruction after the Great East Japan Earthquake will also be taken. Specific tax reform measures are shown below.

Individual income taxation

- Introduction of a special deduction system for capital gains from the sale of vacant houses
 - A special deduction system (30 million yen) will be introduced for capital gains for the cases where an inherited vacant house only meets the old earthquake proof standards and the successor sells the house or property after conducting necessary anti-seismic renovation or demolition of the house.
- Introduction of a tax deduction system concerning renovation for houses to accommodate three generations.
 - A tax deduction system will be introduced concerning the renovation of houses that accommodate three generations using a loan or self-financing (loan: 1–2% of the outstanding mortgage as of the end of fiscal year / self-financing: 10% of the value equivalent to the standard construction costs).
- Introduction of deduction for switch OTC drugs (special measures for medical expenses deduction)
 - An income deduction system for promoting self-medication (a special measure concerning the calculation of medical expenses deduction) will be introduced concerning the purchase of switch OTC drugs (amount exceeding 12,000 yen per year) for individuals who receive health checks, vaccinations, etc.
- Comprehensive revision of the tax system for private donations
 - A tax deduction system will be introduced concerning private donations used for student support programs by national university corporations, etc.
 - Regarding public interest corporations, the requirements concerning the number of donors for tax deductions concerning private donations will be eased according to the size of the project.

Asset taxation

- Enhancement and relaxation of taxation concerning ownership of farmland
 - The value of fixed assets of unused farmland for which an agricultural committee recommend the owner to have consultation with a farmland intermediary management agency will be increased in comparison to usual farmland.
 - The government will introduce a special measure to halve for the first three years the amount of tax base for fixed asset tax when the owner is to lend the whole farmland to an farmland intermediary management agency for more than ten years.
- Establishment of a special measure concerning fixed asset tax on machines and equipments
 - Provided that the Act on the Improvement of Productivity of Small and Medium-sized Enterprise (tentative name) is established, a special measure will be introduced to halve for the first three years the amount of tax base for fixed asset tax when small and medium-sized companies acquire a certain machine or equipment between the date of enforcement of the Act and the end of FY2018.

Corporate taxation

○ Growth-oriented corporate tax reform

- Reduction of the corporate tax rate, etc.

	FY2015		FY2016 and 2017	FY2018
Corporate tax rate	23.9%	⇒	23.4%	23.2%
Enterprise tax proportionate to the income level*	6.0%		3.6%	3.6%
(Reference) Effective corporate tax rate (national and local tax)	32.11%		29.97%	29.74%

*Includes local special corporate tax until FY2016

- Expansion of tax base, etc.:
 - Revision of special tax measures concerning taxation (as shown below)
 - Revision concerning depreciation (the depreciation method for equipment and structures affixed to buildings is unified with the straight-line method)
 - Additional revision of the deduction of losses carried forward (maximum amount of deduction for large corporations: (FY2016) 65% of income ⇒ 60% of income; (FY2017) 50% of income ⇒ 55% of income)
 - Further expansion of pro-forma standard taxation for enterprise tax (currently (FY2015) three-eighths ⇒ (FY2016) five-eighths)

○ Revision of special tax measures

- The scale-down and abolishment of the tax system to promote investment in facilities to improve productivity. (Currently: immediate depreciation, etc. ⇒ (FY2016) Special

- depreciation rate: 50%,etc. ⇒ (FY2017) Abolished (clarified in the FY2016 tax reform bill)
- Revision of the tax system to promote environment-related investments (exclusion of solar power generation facilities for the purpose of selling electricity, etc.)
 - Revision of the employment promotion tax system (limitation of subject areas and subject types of employees). Other measures will also be taken;and others.
- Correction of unevenness in local corporate taxation (from FY2017)
 - Reduction of corporate inhabitant tax proportionate to corporate tax and reduction of local corporate tax
 - Abolishment of local special corporate tax and special corporate transfer tax
 - Establishment of the corporate enterprise tax grant
 - Establishment of the tax system to support regional revitalization (home town tax for companies)
 - Provided that the Local Revitalization Act is revised, a tax deduction system will be introduced concerning donations related to certain projects listed in a plan certified under the Act that are conducted by local governments.
 - Tax measures to support reconstruction
 - The special depreciation system and tax credit system for acquisition of machines, etc. in the areas where reconstruction industries accumulate will be revised. At the same time, the applicable period of the system will be extended for five years (in addition, some requirements will be relaxed based on the actual situation of the affected areas). Other measures will also be taken.

Consumption taxation

- Introduction of the reduced tax rate system for consumption tax
 - The reduced tax rate system will be introduced from April 2017.
 - Subject items are (i) drinks and foods excluding alcohol and those served at restaurants and (ii) newspaper subscription fees.
 - The reduced tax rate is 8% (national tax: 6.24%, local tax: 1.76%).
 - The invoice-based method will be introduced in April 2021. Until then, simple methods will be applied, as well as some special measures concerning calculation of tax amount.

*The FY2016 tax reform bill will stipulate that, in line with the introduction of the reduced tax rate system, necessary measures will be taken for securing stable and permanent financial sources as well as for the smooth introduction and management of the reduced tax rate system.
- Expansion of consumption tax exemption system for foreign travelers
 - As for the consumption tax exemption system for foreign travelers, the lower limit of purchase amount for tax exemption of general commodities will be reduced (over 10,000 yen → over 5,000 yen per store per day).

○ Revision of automobile tax

- In line with consumption tax hike to 10% in April 2017, automobile acquisition tax will be abolished, while tax proportionate to environmental performance will be introduced concerning automobile tax and light automobile tax to maintain and enhance the eco-friendly function.
- Revision and extension of the special measure (reduced tax burden for eco-friendly cars) concerning automobile tax and light automobile tax, which is to be applied in FY2016.

International taxation

○ The agreement between the Interchange

- The government will improve domestic legislation to implement the provisions in the agreement (equivalent to a tax treaty, but not legally binding) (signed in November 2015) (including the reduction of the tax rate on dividends paid among Japan and Taiwan at the place of tax source to 10%,etc.).

○ Establishment of a reporting system concerning information on multinational companies, etc.

- A framework in which countries cooperate in collecting and sharing information in order to understand global activities and the actual situation of tax payment by multinational companies, etc. will be established.

Development of the environment for tax payment

○ Establishment of a credit card payment system for national tax

- A system that allows online credit card payment of national tax will be established.

○ Revision of the additional tax system

- The government will introduce a measure to impose additional tax on taxpayers that have repeatedly failed to file a return, disguised, or concealed facts to be used as the basis for the calculation of the tax base in a short period.

Tariffs

○ Extension of the application period for temporary tariff rates

○ Liberalization of customs offices to which import/export declarations are submitted, etc.

- Regulation on customs offices to which import/export declarations are to be submitted will be liberalized for AEOs (Authorized Economic Operators). The customs brokers system will also be revised.