

## Japan tax alert

Ernst & Young Shinnihon Tax

# Current status of the 2011 Japan tax reform

(This tax alert is a summary of the Japanese newsletter published on the same topic on 30 June 2011.)

On 10 June 2011, a partial revision of income tax law ("Original bill"), submitted to the Japanese Diet on 25 January 2011, was renamed as "Reform bill for partial revision of income tax law, etc. in response to the changing economic structure" with revisions made to certain items from the Original bill ("Revised bill").

In addition, the items in the proposals for the Original bill (excluding certain key items and the Act on General Rules for National Taxes) were submitted to the Diet ("Separate bill").

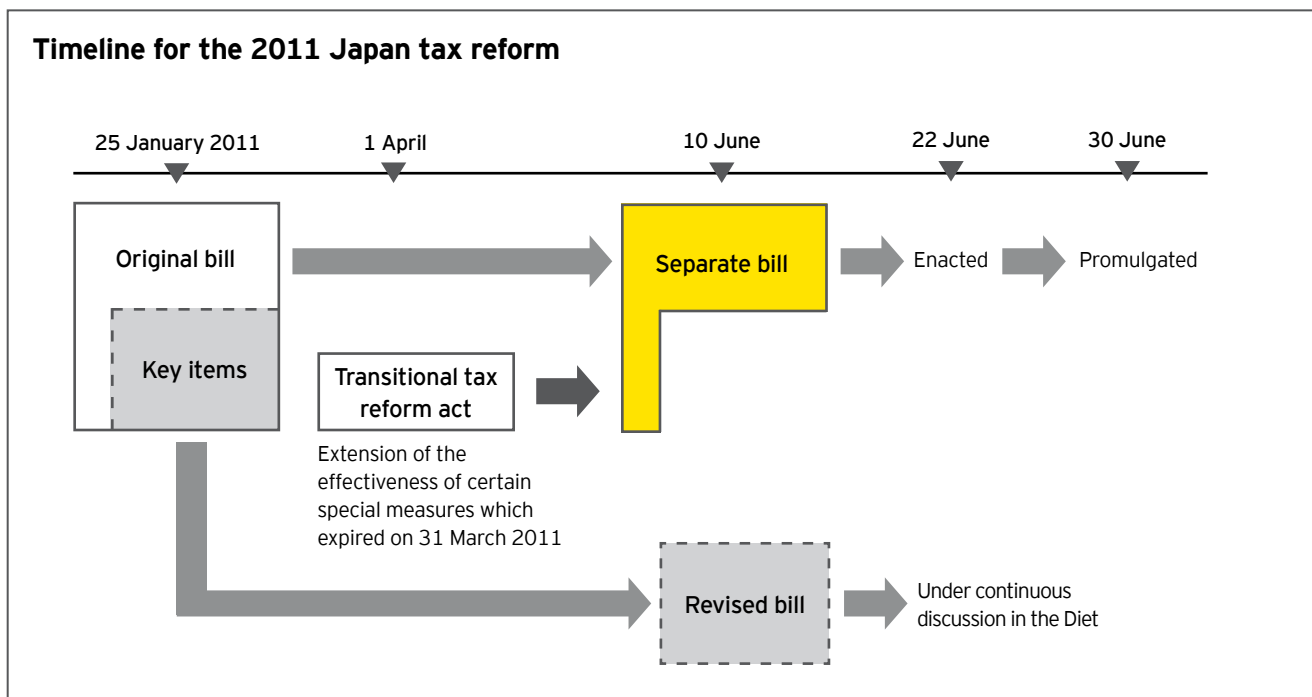
On 22 June 2011, the proposals for Separate bill were passed/enacted in the Diet ("Separate act"). On 30 June 2011 the Separate act was promulgated.

This alert provides further information about the following items:

- ▶ Status concerning 2011 Japan tax reform
- ▶ Key items in the Revised bill and Separate act

# Status concerning 2011 Japan tax reform

- ▶ On 25 January 2011, the Original bill was submitted to the Diet.
- ▶ As the proposed 2011 tax reforms were not passed by the 31 March 2011 deadline, and in order to avoid disruptions from the expiration of the special measures on 31 March 2011, the Diet passed the transitional tax reform laws ("Transitional tax reform act"), which became effective on 1 April 2011.
- ▶ On 8 June 2011, an agreement was reached among the Democratic Party of Japan, the Liberal Democratic Party and the New Komei Party to make an effort to have the proposals for the Separate bill enacted by 30 June 2011, and continuously discuss the remaining key items in the proposals for the Original bill if not passed in the present Diet ("Three party agreement").
- ▶ On 10 June 2011, the proposals for Revised bill and Separate bill were submitted to the Diet based on this Three party agreement.
- ▶ On 22 June 2011, the proposals for Separate bill were enacted in the Diet.
- ▶ On 30 June 2011 the Separate Act was promulgated.



*Note: Certain rules under the Transitional tax reform involve measures which simply do not extend the length of their effectiveness.*

# Key items under the Revised bill and Separate act

The following chart provides examples of key items from the Revised bill and Separate act, which were initially part of the Original bill:

	Original bill	
	Separate act	Revised bill (under continuous discussion in the Diet)
<b>Corporate income tax</b>	<ul style="list-style-type: none"> <li>▶ Amendment of special provision for R&amp;D tax credit</li> <li>▶ Amendment of the group taxation regime</li> </ul>	<ul style="list-style-type: none"> <li>▶ Reduction of corporate income tax rate</li> <li>▶ Review of the net operating loss carry-forward rules</li> <li>▶ Amendment of the depreciation provisions</li> <li>▶ Amendment of bad debt reserves</li> </ul>
<b>International taxation</b>	<ul style="list-style-type: none"> <li>▶ Amendment of tax haven rules</li> <li>▶ Reform of the transfer pricing taxation rules</li> <li>▶ Contribution in kind by foreign corporation</li> <li>▶ Revision of foreign tax credit rules</li> </ul>	
<b>Tax on income from share investment</b>	<ul style="list-style-type: none"> <li>▶ Extension of reduced tax rates on dividend income and capital gains</li> <li>▶ Exemption of small dividend and capital gains accounts for listed shares to be introduced after a two-year delay</li> <li>▶ Decrease of the threshold of major stockholders which are not entitled to reduced separate withholding tax imposed on dividend income from listed shares</li> <li>▶ Revision of pass-through treatment of investment vehicles (J-REITs) and special purpose companies</li> </ul>	
<b>Consumption tax</b>	<ul style="list-style-type: none"> <li>▶ Amendment to tax-exempt status</li> <li>▶ Amendment to 95% rule</li> </ul>	<ul style="list-style-type: none"> <li>▶ Establishment of special taxation rules against global warming</li> </ul>
<b>Individual income tax</b>		<ul style="list-style-type: none"> <li>▶ Amendment to employment income deduction rules</li> <li>▶ Amendment to taxation of retirement income</li> <li>▶ Repealing allowance for adult dependents</li> </ul>
<b>Inheritance tax</b>		<ul style="list-style-type: none"> <li>▶ Amendment to basic estate allowance and tax rates</li> <li>▶ Amendment to tax exemption for life insurance payments</li> <li>▶ Credit for minors and handicapped persons</li> <li>▶ Amendment to gift tax</li> </ul>
<b>Tax environment and administrative matters</b>	<ul style="list-style-type: none"> <li>▶ Reform of National Tax Tribunal</li> </ul>	<ul style="list-style-type: none"> <li>▶ Amendment to the Act on General Rules for National Taxes</li> <li>▶ Amendment to request for correction/claim</li> <li>▶ Amendment to tax audit procedures</li> </ul>

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