

FY 2010 Tax Reform (Main Points)

Ministry of Finance
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(Provisional translation)

I. The new government's viewpoint of tax reform, new framework for tax reform, and direction of reform regarding major tax issues are as follows.

Viewpoint of tax reform

- Regard "fairness, transparency and confidence" as three basic principles from the taxpayer's point of view.
- Regard sharing of financial burden necessary to build a mutually-supportive society as an important viewpoint.
- Promote integrated reform of both tax system and social security system.
- Consider tax system which responds to globalization.
- Build tax system which serves to establish local autonomy.

New framework for tax reform

- We have made tax reform processes more transparent and formed the new Tax Commission comprised of politicians under the government, in order to unify functions of the tax commissions of the ruling party and the government and discuss tax reform under the government's responsibility.
- We will implement zero-based review of special taxation measures(STMs) according to "Basic Principle for Screening STMs" for the next four years starting from the FY2010 tax reform in order to remove vested interests in the tax system. We will submit the bill of "Improving Transparency of STMs Law"(provisional title)to establish a mechanism which discloses how STMs are applied and examines their effectiveness.

Direction of reform regarding major tax issues

Measures to facilitate tax compliance and enforcement

- Consider introducing "Taxpayers' Charter"(provisional title), reforming the national tax tribunal, adopting of single numbering system applicable to both tax and social security, establishing Revenue Agency, etc. at project teams to be set up under the Tax Commission.

Individual income taxation

- Promote the reform of individual income taxation towards the recovery of its income redistribution function by means of the reform of tax rate structure and the shift from income deduction to tax credit, refundable tax credit or allowances, etc.

Corporation taxation

- Review corporate tax rate when tax base is broadened by such means as reviewing STMs, considering consistency with growth strategies, maintenance and enhancement of corporations' international competitiveness, and international harmonization.

International taxation

- Consider taking necessary measures in terms of clarity and appropriateness of taxation rules in implementation, taking into account circumstances around international taxation, with a view to invigorating corporate activities while ensuring appropriate taxation and tax collection. Accelerate effort to expand and reinforce Japan's tax treaty network.

Property taxation

- Aim to review tax base and tax rate structure of inheritance tax in the FY2011 tax reform from the viewpoint of correcting a wealth disparity.

Consumption taxation

- Consider the reform of consumption taxation including the clarification of the use of consumption tax revenue and the measures to address its regressive nature and ensure appropriate taxation in conjunction with the fundamental reform of social security system.

Excise taxation

- Consider tax system which is in favor of health and responds to global challenges from the viewpoint of "Tax Bads, Not Goods".

Tax system for nonprofit organizations (tax system for donations)

- In view of increased importance of the role of "the New Public", establish a project team on tax system for nonprofit organizations for further consideration of its reform.

II. The FY 2010 Tax Reform

Individual income taxation

- Abolish deduction for dependents (up to 15 years old) (JPY380,000) while creating child allowances from the perspective of “the shift from income deduction to allowances”
- Abolish the additional part of deduction for the specified dependents (between 16 and 18 years) (JPY 250,000) while providing high school education virtually at no charge.

Corporation Taxation

- Streamline the taxation on transaction of capital, including introduction of tax deferral for profits and losses derived from transfers of assets between 100% owned group domestic corporations.
- Abolish the taxation measure of “individually owned companies” (specially controlled family corporation) in the FY2010 tax reform. In the FY2011 tax reform, we consider taking measures to address the problem of “double deduction” from owners’ income in terms of an equal footing with sole proprietor.

International taxation

- Review the taxation rule for controlled foreign corporations so that certain income of those corporations from asset management shall be effectively taxed and “threshold tax rate” shall be reduced to “less than or equal to 20%”, with a view to preventing tax avoidance and invigorating corporate activities by responding to changes of business structures of Japanese corporations operating overseas.
- Provide for necessary domestic legislation regarding information provision for foreign tax authorities in order to expand and reinforce the network of tax information exchange by concluding tax treaties and agreements on exchange of information for tax matters and implement information exchange more effectively.

Property taxation

- Raise the current limitation of non-taxable amount (JPY 5 million) regarding the non-taxable special measure of gifts from lineal ascendants for purchasing residential housing, to JPY 15 million in 2010 and JPY 10 million in 2011 respectively, with income limitation (JPY 20 million) for recipients of these gifts .

Excise taxation

- Abolish the 10 years provisional scheme on gasoline tax while maintaining the current level of the tax rates for the time being considering that crude oil prices have been stable and the relationship with global warming countermeasures need to be taken into account.
- Take legal measures to suspend the taxation beyond the basic tax rates if crude oil prices should soar as high as in the first half of FY2008.
- Give further consideration to the taxation for global warming countermeasures, including the review of the tax rates that will be maintained for the time being, so that the conclusion will be drawn for implementation in FY2011.
- Promote the so-called “greening” of motor vehicle tonnage tax and reduce tax burden corresponding to around half of national surcharge incurred by provisional scheme.
- Raise tobacco tax rate to JPY 1.75/piece (JPY 3.5/piece totaled with local taxes).
(This rate will be applied from 1 October 2010.)

Tax system for nonprofit organizations (tax system for donations)

- Simplify eligibility procedure and application documents relating to specified nonprofit corporations.
- Lower the applicable level of tax deductions for donations from JPY 5,000 to JPY 2,000.

Measures to facilitate tax compliance and enforcement

- Review the penalties for tax crimes including the increase of the current upper limit of imprisonment against tax evasion from 5 years to 10 years.

Review of special tax measures

- Review 82 items of national policy tax measures (out of 241 items).
(Abolish 12 items and reduce 29 items out of 82 items.)

Improving transparency of STMs Law (provisional title)

- Submit the bill of “Improving transparency of STMs Law” to establish a mechanism which discloses how STMs are applied and examines their effectiveness.