FY2017 Tax Reform (Main Points)

(Cabinet decision on December 22, 2016)

In order to increase the growth potential, the government will revise the spouse deduction and special spouse deduction from the viewpoint of establishment of a mechanism that makes it unnecessary to be concerned about the adjustment of working hours, and revise the R&D-related tax system and the tax credit for the income expansion intended to encourage wage hikes and will enhance the capital investment promotion tax system for SMEs. At the same time, the government will carry out liquor tax reform in order to restore tax burden fairness between different types of liquors and revise the CFC (controlled foreign company) rules to address international tax avoidance in an effective manner without impeding Japanese companies' overseas business operation. In addition, the government will improve the taxation foundation related to disaster response by revising some provisions of disaster-related tax systems. Concretely, the government will reform tax systems as follows.

Individual income taxation

○ Revision of the spouse deduction and special spouse deduction

・The upper limit on the annual salary income of spouses eligible for an income deduction of 380,000 yen will be raised to 1.50 million yen (*). The deduction amount will be gradually reduced in proportion to the spouse's annual salary income amount, and will be eliminated at the annual salary income of 2.01 million yen.

(*) The deduction amount is one applied to income tax.

・The income limit will be set with respect to taxpayers themselves.

The deduction amount will be reduced starting at the taxpayers' annual salary income of 11.20 million yen and eliminated at 12.20 million yen .

(Note) The above-mentioned salary income amounts are the amounts when the persons concerned receive only salary income. The decrease in individual inhabitant tax revenues of local governments caused by this revision will be covered fully by national treasury.

○ Establishment of the installment-type NISA

・The installment-type NISA, whereby investment is made in investment trusts suitable for installment and diversified investment through a periodic and continuous method will be established (the upper limit on the annual investment amount: 400,000 yen; nontaxability period: 20 years; users can select either the installment-type NISA or the existing NISA).

Asset taxation

○ Revision of the tax system related to business succession

・Relaxation of the requirement for securing jobs at the time of disasters, etc.

・Concurrent use of the tax system related to settlement at the time of inheritance

○ Revision of the scope of tax payment obligations, including the inheritance tax payment, concerning foreign assets

・Foreign assets will be exempt from taxation in the case of inheritance between foreign nationals with whose Japanese residence is temporary.

・When either the inheritor or the decedent is a Japanese who has the record of residence in Japan within the past 10 years, both domestic and foreign assets will be subject to taxation.

○ Revision of taxation concerning very tall buildings for residential use

・The method of proportionate division of the fixed asset tax amount concerning very tall buildings for residential use will be revised in a way reflecting the recent trend in transaction prices.

○ Addition of assets eligible for the special measure concerning depreciable assets

・In limited regions and industries, certain types of tools, appliances and fixtures will be added to the scope of assets eligible for the special measure concerning the amount of the tax base for the fixed asset tax on machines and equipment acquired by SEMs.

Corporate taxation

○ Revision of the R&D-related tax systems

・The total expenditure-based tax credit system (the current tax credit rate: 8-10% in principle; 12% for SMEs) will be revised to a system under which the tax credit rate (6-14% in principle; 12-17% for SMEs) will be set in proportion to changes in R&D expenditure.

・The application period of the high-level type tax credit system will be extended for two years.

・Some types of expenditures related to the development of new services will be added to the scope of R&D expenditures eligible for tax credit.

・The scope of special R&D expenditures eligible for tax credit and the procedures of the system will be revised.

○ Revision of the tax credit for the Income Expansion

・Regarding large companies, the requirement concerning the average salary payment amount, etc. will be revised (current requirement: higher than in the previous year → rising wages by at least 2% from the previous year).

・The tax credit amount in the case of an increase of 2% or higher in the average salary payment amount will be increased [current tax credit amount: 10% of the increase in the employer's salary payment amount since FY2012 → 2% (12% for SMEs) of the increase in the employer's salary payment amount from the previous year in addition to the 10% tax credit].

○Improvement of the environment for corporate governance reform and business restructuring

・The special measure concerning the corporate tax declaration deadline will be revised (extension of a maximum of four months will be allowed when a company with an accounting auditor sets the date of its general shareholders' meeting at a date more than three months after the end of its business year).

・The requirements concerning the counting of remuneration for directors, etc. as losses will be revised (regarding remuneration linked to profit, remuneration linked to stock prices or profits in two or more business years will be added to the scope of remuneration eligible to be counted as losses, among other revisions).

・The tax system related to reorganization measures will be improved (a company split in which a business division of a company is spun off as an independent company, for example, will be added to the scope of the tax system related to reorganization measures under certain conditions).

○ Support for SMEs

・A tax system to promote investment in facilities for regional core companies will be established (establishment of a system under which special depreciation or tax credits will be allowed for capital investment based on the Regional Future-Oriented Investment Promotion Act (tentative name)).

・Regarding the expansion of the investment promotion tax system for SMEs (additional measures (e.g. immediate depreciation concerning equipment that improves productivity) related to the investment promotion tax system for SMEs), the system will be reorganized as a tax system for strengthening the management of SMEs, with all types of equipment and fixtures and facilities attached to buildings added to the scope of capital goods eligible for the tax system.

○ Enhancement of the tax system to strengthen regional bases

・The tax credit amount concerning the employment of new full-time, indefinite-term workers will be raised.

Consumption taxation

○ Liquor tax reform

・Revision of the tax rate structure

- The tax rates for beer and beer-like liquors will be unified at 155,000 yen/㎘ (54.25 yen/350 ㎖) in October 2026 (the revision will be implemented in three stages).
- The tax rates for fermented liquors (sake, wine, etc.) will be unified at 100,000 yen/㎘ in October 2023 (the revision will be implemented in two stages).
- The tax rates for “other sparkling alcoholic drinks” (e.g. *shochu* highball) will be raised to 100,000 yen/㎘ (35 yen/350 ㎖) in October 2026.

・Expansion of the definition of beer

- The malt-ratio requirement will be relaxed and the range of adjuncts will be expanded.

・System reforms that contribute to regional revitalization

- *Sakagura* tourism tax exemption for foreign travelers to Japan will be introduced and *shochu* special zone will be established.

○ Revision of automobile taxation

・Revision of the tax reduction for environment-friendly vehicles related to the motor vehicle tonnage tax and the automobile acquisition tax

- From the viewpoint of promoting automobiles with better fuel economy performance, the tax reduction will be extended for two years after the policy incentive function has been strengthened through the revision of the scope of eligible automobiles.

- In implementing the revision, the standard will be gradually raised in stages. Concerning the motor vehicle tonnage tax rate, consideration will be given to the impact on gasoline-powered automobiles.

・Revision of the special measure (tax rate reduction) for greening of the automobile tax and light vehicle tax.

- The period of the special measure will be extended for two years, with the scope of automobiles and light vehicles eligible for the special measure narrowed.

○ Introduction of arrivals duty-free shops

・Goods purchased at duty-free shops at the time of arrival will be added to the scope of goods eligible for the current tax exemption for personal effects.

○ Exemption for virtual currencies from consumption tax

・Transfer of virtual currencies specified by the Payment Services Act will be exempted from consumption tax.

○ Revision of the settlement standard for local consumption tax

・When data on the value of annual retail sales is updated to data based on the FY2014 Census of Commerce, mail-order/catalogue sales and internet sales will be excluded. In addition, the ratio of consumption tax revenue allocated in proportion to the population size and the ratio of consumption tax revenue allocated in proportion to the number of businesses will be revised to 17.5% (current ratio: 15%) and 7.5% (current ratio: 10%), respectively.

International taxation

○ Revision of the CFC (controlled foreign company) rules

Regarding the CFC rules, the approach to recognize the tax avoidance risk will be revised from pro forma basis (based on the effective tax rates of foreign subsidiaries) to substance basis (based on the specifics of individual activities (e.g. types of income)). When making the revision, consideration will be given to the administrative burden on companies.

- So-called passive income, or income not generated with real economic substance, will be subject to the CFC taxation.
- Income generated through real economic activities will be exempted from the CFC taxation regardless of foreign subsidiaries' effective tax rates.

Development of the environment for tax payment, etc.

○ Revision of the procedures for criminal investigations related to national tax

・Procedures for collecting electronic evidence will be developed in view of the shift to ICT.

○ Tax measures related to disasters

・The taxation foundation related to disaster response will be improved by permanently adopting measures that have until now been implemented at the time of each disaster through special legislation.

Tariffs

○ Extension of the application period of temporary tariff rates, etc.

○ Expansion of the advance filing rules on passengers and air cargoes, etc.