

FY 2013 Tax Reform (Main Points)

Ministry of Finance

Official Cabinet Decision

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With a view to establishing a “positive cycle for creation of growth and wealth,” while taking into account the current economic situation, the FY2013 tax reform proposes tax incentive measures for private investment, the expansion of employment and income, SMEs and agriculture, forestry and fisheries, etc. It will also take necessary measures regarding personal income tax, inheritance and gift taxes, and the acquisition of housing, in order to steadily implement the Comprehensive Reform of Social Security and Tax. In addition, tax measures will be taken to support reconstruction from the Great East Japan Earthquake.

I. Individual Income Tax

Revision of the Top Rate of Personal Income Tax

- In addition to the current personal income tax structure, introduce a 45% rate for taxable income of over ¥40 million.

Taxation of Financial Assets and Stocks

- Introduce a Japanese version of an Individual Savings Account (“Japanese ISA”) that allows investment of up to ¥5 million without taxation for 10 years (exemption measures for dividends and capital gains from small investments in listed shares). Expand the unification of the income tax on profits from financial instruments (expand the aggregation of interest income and capital loss from public and corporate bonds, and profit and loss from listed shares).

Taxation of Housing

- Regarding personal income tax, extend the period of current tax measures to allow tax

credit relating to housing loans from January 1, 2014 to the end of 2017 for 4 years and raise the maximum amount of deductions to ¥5 million for eligible houses (long-term quality houses and low-carbon houses) and to ¥4 million for other houses acquired between April 1, 2014 and the end of 2017.

- Expand special measures to allow tax deductions for housing investment to acquire eligible houses at one’s own expense and for certain housing renovations (e.g., home improvements for better energy-saving performance, etc.).
- Regarding local inhabitant tax, expand the maximum deductible amount of tax credit relating to housing loans from April 1, 2014 to the end of 2017 (the loss in revenues will fully be compensated by the national budget).

Taxation for Reconstruction Support

- As for promotion of moving of houses to upland areas, create a special deduction of ¥50 million for capital gains relating to land purchased by the authorities that meet certain requirements for the promotion of group relocation for disaster mitigation.
- When the sufferers of the Great East Japan Earthquake reacquire housing, drastically raise the maximum amount of deductions relating to housing loans to ¥6 million (from the current ¥3.6 million), more than in other areas.

II. Property Tax

Revision of Inheritance and Gift Taxes

- Reduce the basic deduction by 40% from the current amount calculated as “¥50 million plus ¥10 million multiplied by the number of statutory heirs” to “¥30 million plus ¥6 million multiplied by the number of statutory heirs”.
- Revise the inheritance tax structure by raising the top tax rate to 55%, etc.
- Regarding special measures for calculation of the taxable amount on small-scale residential land, etc. in inheritance tax, expand the upper limit of applicable land size to 330 square meters (from the current 240 square meters), while extending measures such as allowing full combined application of residential and business building lands (except for lease).
- Revise the gift tax structure by relaxing the

tax rate in cases where the donees are children or grandchildren, etc. of donors, while raising the top tax rate to 55% (same with inheritance tax).

- Expand eligible donors and donees for gift tax settlement at the time of inheritance, by easing the donor age entitlement from at least 65 years old to at least 60 years old and adding their grandchildren to the eligible donees.

Measures for the Succession of Businesses

- As for tax system for the succession of businesses that allows deferral of inheritance tax, etc. with regard to unlisted shares, revise the scheme fundamentally in order to enhance usability by relaxing requirements (such as on securing employment), alleviating burden (reducing interest tax, etc.), and simplifying procedures (abolishing the prior confirmation, etc.).

Exemption on Gifts for Education in Lump Sum

- As for gift tax on gift money for education in a lump sum to his or her own children or grandchildren, introduce an exemption of up to ¥15 million per donee.

Taxation for Reconstruction Support

- As for the areas severely damaged by the tsunami during the Great East Japan Earthquake, extend the period of current tax measures to allow a special exemption of fixed property tax on land and buildings in the areas designated by a municipal mayor for an additional year.

III. Corporation Tax

Incentives for Private Investment and Expansion of Employment and Income

- Where domestic investments in production facilities are increased beyond a certain level, introduce special tax incentive measures to allow a special depreciation of 30% or tax credit of 3% for the acquisition cost of machinery and equipment consisting of the production facilities.
- Extend the period of the current tax measures to allow special depreciations with regard to the acquisition of environmental load-reducing energy-related facilities for 2 years and expand its scope to energy-saving cogeneration facilities.
- Raise the maximum deductible amount of tax credit based on total R&D spending from 20% to 30% of a corporation's corporate income tax liability and add certain joint research to the scope of special experiments and research expenditures.
- Where the wage and salary are increased beyond a certain level, introduce special measures for the promotion of the distribution to allow tax credit of 10% in incremental labor expenses and expand the current special incentives measures for the promotion of job creation, by raising the deductible amount of tax credit from ¥200,000 to ¥400,000 per incremental employee.

Measures for SMEs, and Agriculture, Forestry and Fisheries

- Introduce measures to allow a special depreciation of 30% or tax credit of 7% when making investments to enhance business by SMEs that engage in agriculture, forestry and fisheries, commerce, and service industry businesses.
- Expand special measures for tax deductible expenses on entertainment and social expenses for SMEs (entertainment and social expenses will be fully deductible up to ¥8 million).

Measures for Reconstruction Support

- Expand the current reconstruction support measures to corporations starting business in former evacuation areas that allow tax credits for the employment of disaster sufferers, etc., special depreciations, and tax credit for investment in former evacuation areas, etc.

IV. Indirect Tax

- Regarding special measures for the advanced safety vehicles equipped with pre-crash brakes in motor vehicle tonnage tax and auto mobile acquisition tax, add certain buses of 5 tons or more to the scope.

V. Measures to Facilitate Tax Payment

- Reduce delinquent tax, interest tax, and interest on refunds, in light of the current low interest situation (as well as reducing delinquent charges, etc. in local tax).