22 February 2021

Japan tax newsletter

Ernst & Young Tax Co.

2021 Japan tax reform outline

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The ruling parties (a coalition comprised of the Liberal Democratic Party and Komeito) released an outline of the 2021 tax reforms (hereinafter, "Outline") on 10 December 2020. This newsletter provides an overview of the major amendments and revisions contained in the outline.

The 2021 tax reform is the first overseen by the Suga administration since it began in September. 2020 will be remembered as the year in which Japan faced the COVID-19 pandemic and the worst economic slowdown since the end of World War II. The central government is faced with the difficult task of maintaining a balance between the implementation of policies to prevent the spread of the infection and sustaining socio-economic activity.

Particularly prominent in the 2021 tax reform are the revisions of current tax rules and introductions of new tax regimes aimed to support the three pillars of policy upheld by the Suga administration – successful implementation of COVID-19 countermeasures, promotion of digital transformation ("DX") and acceleration of carbon neutrality. As the economy slows down due to the impact of the COVID-19 pandemic, many tax reduction measures related to corporate taxation are being introduced to support companies that are facing this harsh environment. New progressive tax regimes are also being created in accordance with the promotion of DX and carbon neutrality policies. Another notable aspect of these reforms is the revision of many tax procedures in order to further digitalize tax administration.

Please note that the contents of this newsletter may be partially revised, deleted or supplemented in response to future Diet deliberations on the reform bill.

EY

Building a better working world

Corporate taxation

1. Revisions to the R&D tax regime

(1) Overview

It is important that companies continue to increase their potential growth rate through the enhancement of their productivity by boosting technological innovations and other initiatives. They will be increasingly encouraged to sustain or increase investments in R&D to maintain international competitiveness in the midst of various changes taking place due to the COVID-19 pandemic. The revisions described below will be undertaken in view of the aforementioned framework.

Revisions to the R&D tax regime (Overview) (Proposal)

Current rules

Gross

Tax credit rate	6% to 14%, depending on the increase/decrease in experimental and research expenses* (SMEs: 12% to 17%*) ‣ In the event experimental and research expenses exceed 10% of average sales: Additional tax credit rate = (The above percentage x (experimental and research expense percentage - 10%) x 0.5)*
Maximum credit	25% of the corporate tax amount (40% for certain startups conducting R&D) ‣ SMEs: Additional 10% (if the increase rate exceeds 8%)* ‣ In the event experimental and research expenses exceed 10% of average sales: 0 to an additional 10%*

** Temporary measure lasting until 31 March 2021*
Regarding the credit rate of the gross amount incentive, the portion that exceeds 10% for large entities and the portion that exceeds 12% for small and medium-sized entities (SMEs)

Open innovation incentive

Tax credit rate	20%, 25% or 30%, depending on the content of the special experimental and research expenses
Maximum credit	10% of the corporate tax amount (separate from general experimental and research expenses)
Scope of applicability	‣ Joint research or contract research with national experimental and research institutions or universities ‣ Joint research with private companies and intellectual property license fees of SMEs ‣ Certain contract research outsourced to private companies (including R&D startups) ‣ Experimental research related to orphan drugs (drugs for treating rare diseases)

Reform proposal

General

Tax credit rate	2% to 14%, depending on the increase/decrease in experimental and research expenses* (SMEs: 12% to 17%*) ‣ In the event experimental and research expenses exceed 10% of average sales: Additional tax credit rate = (The above percentage x (experimental and research expense percentage - 10%) x 0.5)*
Maximum credit	25% of the corporate tax amount (40% for certain startups conducting R&D) ‣ SMEs: Additional 10% (if the increase rate exceeds 9.4%)* ‣ In the event experimental and research expenses exceed 10% of average sales: 0 to an additional 10%* ‣ In the event sales decreased by 2% or more and the company increased its experimental and research expenses: Additional 5%*

** Temporary measure lasting until 31 March 2022*
Regarding the credit rate of the general incentive, the portion that exceeds 10% for large entities and the portion that exceeds 12% for SMEs

Open innovation incentive

- External entities of national and public universities and national research and development agencies shall be added as eligible counterparts of joint research or contract research and its credit rate shall be set at 25%
- Humanities research institutions shall be added to the scope of experimental and research institutions
- Operations shall be improved by simplifying administrative procedures, etc.

Source: Prepared based on materials published by the Liberal Democratic Party Tax Commission

(2) Revisions to the gross amount incentive

For companies that increase their R&D investments despite experiencing a certain percentage of decrease in sales due to the COVID-19 pandemic, the maximum credit permissible will be raised from 25% to 30% of the corporate tax amount in order to provide incentives for companies to continue investing in R&D. Furthermore, in view of the next science and technology basic plan, the credit rate curve will be revised, and the minimum credit rate will be reduced.

a. The applicable period of the special tax measure designating a maximum credit rate of 14% (c.f. the general rate of 10%) will be extended by 2 years after revising the tax credit rates as follows and reducing the minimum credit rate to 2% (6% under the current rules).

   (i) Increase/decrease rate in experimental and research expenses exceeds 9.4%: 10.145% + (Increase/decrease rate in experimental and research expenses - 9.4%) x 0.35

   (ii) Increase/decrease rate in experimental and research expenses is 9.4% or less: (9.4% - Increase/decrease rate in experimental and research expenses) x 0.175

b. Companies whose sales reduction rate against the sales of their base fiscal year equals 2% or more during any of the fiscal years that begin between 1 April 2021 and 31 March 2023, and whose experimental and research expenses exceeds the experimental and research expenses of the base fiscal year (excluding fiscal years where it receives application of the special measure regarding the maximum tax credit for certain startups conducting R&D) shall be eligible for a 5% addition to the maximum tax credit permissible on their current fiscal year's corporate tax amount.

   Note 1: In the case of companies whose sales of the current fiscal year are less than the sales of the most recent fiscal year that ended prior to 1 February 2020, the "sales reduction rate against the sales of their base fiscal year" above refers to the percentage derived by dividing the amount of sales reduction by the sales of the aforementioned most recent fiscal year.

   Note 2: The above "experimental and research expenses of the base fiscal year" refers to the experimental and research expenses of a company's most recent fiscal year that ended prior to 1 February 2020.

c. The applicable period of the special tax measure that grants special tax credit rates and the special measure that grants additional tax credits in the event experimental and research expenses exceed 10% of average sales will be extended by 2 years.

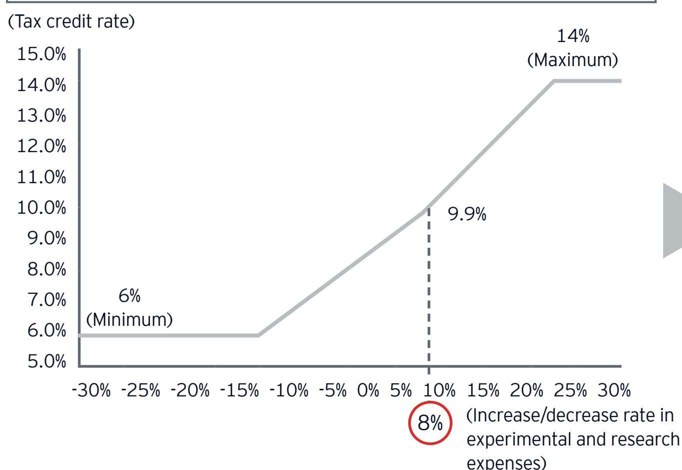
d. The tax incentive to enhance SMEs' technology infrastructure will be similarly revised.

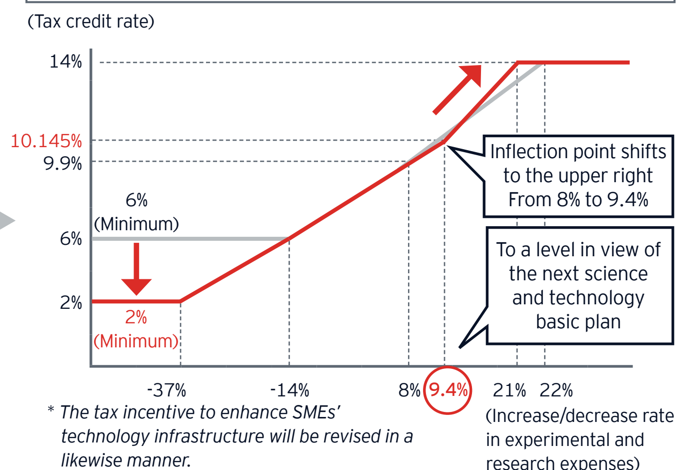
Revisions to the R&D tax regime (Revisions to the gross amount incentive) (Proposal)

Current rules	Reform proposal
Maximum credit: In principle, a maximum of 25% of the corporate tax amount	**Maximum credit:** In the event sales has decreased by 2% or more compared to the base fiscal year and the company has increased its experimental and research expenses, 5% will be added (→ a maximum total of 30%)

* Base fiscal year: The most recent fiscal year that ended prior to 1 February 2020
Note: Startups may elect between application of this measure or the special measure regarding the maximum tax credit for certain startups conducting R&D.

Current rules	Reform proposal
Credit rates: Structured using various rates to provide incentives for companies to further increase R&D spending	**Credit rates:** Credit rates will be revised, and the minimum credit rate will be reduced to 2% in order to provide companies even greater incentives to increase R&D spending





* *The tax incentive to enhance SMEs' technology infrastructure will be revised in a likewise manner.*

Source: Prepared based on materials published by the Liberal Democratic Party Tax Commission

(3) Revision of the definition of experimental and research expenses

As it is also important to support software R&D from the perspective of encouraging the digitalization of companies, expenses necessary for conducting experiments and research which are comprised of the acquisition costs of software to be used internally ("internal software") will be added to the list of items eligible for application of this tax regime, based on the fact that the use of internal software, such as cloud-based software, is becoming widespread.

The ruling parties' tax reform outline:

Experimental and research expenses that are expensed as R&D expenses for accounting purposes and included in the acquisition costs of non-experimental and research assets will be added to the scope.

Note 1: The above "non-experimental and research assets" refers to inventories, fixed assets and deferred assets that are not used in experiments and research when used for business purposes.

Note 2: In accordance with the above, depreciation expenses, capital losses on transfers and losses on retirement of non-experimental and research assets whose cost of goods sold and acquisition costs include amounts that were expensed as R&D expenses for accounting purposes will be excluded from experimental and research expenses eligible for the R&D tax regime. Simultaneously, with regard to non-experimental and research assets whose acquisition costs include amounts that were expensed as R&D expenses for accounting purposes, a company will be granted the option of choosing between application of the R&D tax regime or the regime related to special depreciation.

Some examples of internal software above can be found on the homepage of the Ministry of Economy, Trade and Industry (METI) and are as follows:

- ✓ Services to collect and analyze production plant data and to propose an optimum production plan through use of in-house AI
- ✓ Services to self-inspect infrastructure using drones and AI
- ✓ Mobility services such as remote control and sharing mobility

As uncertainty is inherent to the development of internal software containing an R&D element, there are no guarantees that these activities will generate profits or reduce costs in the future. Therefore, while these expenses are processed as expenses for accounting purposes, they are recorded as assets for tax purposes. (Please refer to the figure on the next page that illustrates the accounting and tax treatments of software production expenses.)

In the event the results of R&D are recorded as assets for tax purposes, as long as those assets are not used for other experiments and research, the depreciation expenses of said assets have been considered as expenses of non-experimental and research assets (i.e., not eligible for this tax regime). Note that even in the event the results of R&D are recorded as assets for tax purposes, if they are used for other experiments and research, then they are treated as experimental and research assets and their depreciation expenses are eligible for this tax regime. This current treatment will not be revised and will continue to be applied going forward.

The 2021 tax reforms addresses the controversy of processing these expenses as expenses for accounting purposes while recording them as assets for tax purposes by permitting the treatment of non-experimental and research assets as experiments and research eligible for application of tax credits right when they are recorded as expenses for accounting purposes. Accordingly, as it says in Note 2 that "the depreciation expenses, capital losses on transfers and losses on retirement of non-experimental and research assets [...] will be excluded from experimental and research expenses eligible for the R&D tax regime," arrangements have been made in the Outline so that the same expenditure does not become eligible for tax credits twice: First, when it is recorded as expenses for accounting purposes and second when it is included in deductible expenses for tax purposes.

However, the following precautions need to be taken.

- ✓ This does not mean that all expenses related to internal software will become eligible for application of this tax regime, but only those that contain R&D elements. Therefore, when considering the consequences of the 2021 tax reforms, the key will be to distinguish those that contain R&D elements and those that do not.
- ✓ As the timing of recognizing experimental and research expenses eligible for tax credits differ between experimental and research assets and non-experimental and research assets, the procedure of tallying experimental and research expenses is projected to become complex. Specifically, experimental and research assets become eligible when relevant expenses are included in deductible expenses for tax purposes while non-experimental and research assets become eligible when relevant expenses are recorded for accounting purposes.
- ✓ As software may become eligible for either the R&D tax regime or the DX investment promotion tax incentive, companies need to carefully consider these options.
- ✓ As R&D expenses required to make business improvements mentioned later in this newsletter may also become eligible for this tax regime, companies will find it necessary to review their scope of tax credit eligibilities.

Accounting and tax treatments of software

Purpose for developing software	For internal use (*) (Will use of the software clearly generate profits or reduce costs in the future?)			For market distribution (Production costs of product masters)		
	No	Unclear	Yes	When R&D is completed	After R&D completion: Production costs of product masters	After R&D completion: Expenses to carry out production activities to improve or revamp a function
Accounting treatment	Expense	Expense	Asset	Expense	Asset	Asset (R&D expenses in the case of a significant upgrade)
Tax treatment	Expense	Asset	Asset	Expense	Asset	Asset (R&D expenses in the case of a significant upgrade)

Basic Circular of the Corporation Tax Act, 7-3-15-3 (extract)
Expenses that may be excluded from software acquisition costs:

7-3-15-3 The following expenses may be excluded from software acquisition costs:

(2) R&D (internal software are limited to only those whose utilization will clearly will not lead to the generation of profits or reduction of costs in the future.)

** An example is a case where a company provides software that is stored in its internal server to clients using cloud technology.*

Source: Prepared based on materials published by the Liberal Democratic Party Tax Commission

(4) Expansion of the scope of the open innovation tax incentive

From the perspective of promoting high quality R&D, measures to expand the scope and improve the operations of the open innovation incentive will be introduced.

Revisions to the R&D tax regime (Expansion of the scope of the open innovation incentive) (Proposal)

- To further revitalize partnerships between the private sector, academic sector and public sector, joint research and contract research with external entities of national and public universities and national research and development agencies shall be added to the scope and the credit rate thereof shall be set at 25%.
- Humanities research institutions shall be added to the scope of specified research institutions with whom joint research and contract research can be conducted.

<table>
<tr><th colspan="3">Current rules</th></tr>
<tr><td rowspan="6">Joint experimental research and contract experimental research</td><td>Specified research institutions, etc.</td><td rowspan="2">30%</td></tr>
<tr><td>Universities, etc.</td></tr>
<tr><td>R&D startups</td><td>25%</td></tr>
<tr><td>SMEs</td><td rowspan="3">20%</td></tr>
<tr><td>Other parties (private companies, etc.)</td></tr>
<tr><td>Technical research associations</td></tr>
<tr><td>License fees of intellectual property rights</td><td>SMEs</td><td>20%</td></tr>
<tr><td colspan="2">Experimental research related to orphan drugs (drugs for treating rare diseases)
Experimental research related to specified use drugs</td><td>20%</td></tr>
</table>

<table>
<tr><th colspan="3">Reform proposal</th></tr>
<tr><td rowspan="7">Joint experimental research and contract experimental research</td><td>Specified research institutions, etc.</td><td rowspan="2">30%</td></tr>
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</table>

- With regard to the confirmation of specified experimental and research expenses conducted by a joint research counterpart, operational improvements shall be carried out by clarifying the fact that confirmation can be conducted via a report prepared by a third party rather than the counterpart having to independently prepare a report. Additional modifications will include the exclusion of contractor R&D costs which do not meet the definition of experimental research expenses from the contractor's point of view.

Source: Prepared based on materials published by the Liberal Democratic Party Tax Commission

(5) Other

In future, revisions to the scope of this tax regime will continue to be carried out to merge more closely with international standards.

The ruling parties' tax reform outline:

a. Reverse engineering (those that are not considered experimental research conducted to make discoveries or to create new applications of existing knowledge) shall be excluded from the scope.

b. Rules will be revised to clarify the scope of experimental and research expenses that are eligible for application of the R&D tax regime. For example, in the case of a party testing technology still under development, even if said technology contributes to business improvement of said party, in the event the experimental research relevant to said technology is considered experimental research related to engineering or natural science, then expenses required for said experimental research shall be eligible for application of the R&D tax regime.

Regarding the business improvement example described in b. above, the Ministry of Economy, Trade and Industry states on its homepage that this may include "R&D carried out by infrastructure companies to create algorithms and build data platforms for the purpose of automating its plant operations (in-house business improvement) through utilization of AI".

In the Q&A Section of its homepage, the National Tax Agency (NTA) states the following regarding business improvement:

Experimental research mentioned above is defined as basic research, applied research, development or industrialization from an engineering and natural science perspective. It is not necessarily limited to those of new products or new technologies, but experimental research to improve products currently being manufactured or improve existing technologies are also included in the scope. On the other hand, humanities and social science-related research that are not considered as manufacture of products or improvement, creation or invention of technology are excluded from the scope.

Therefore, companies are warned to be careful since, for example, the following types of expenses are not included.

- Expenses related to the improvement of administrative efficiency or management organization
- Expenses related to the improvement of sales techniques or methods and expansion of distribution channels
- Expenses simply related to the creation of product designs
- Clinical trial expenses, such as expenses required for data aggregation conducted to apply for permission to print special labels on existing products

The above Q&A introduced by the NTA was published in October 2003, and technologies used for R&D at the time and those that are used today differ. Therefore, since the R&D environment itself is significantly different, going forward, we expect them to make further clarifications concerning this point.

Prior to the 2021 tax reforms, even if experimental research contained an R&D element, relevant expenses were often not eligible for application of this tax regime since they were recorded as assets for tax purposes or because the research led to business improvements. Due to the measures described in (3) and (5) above, tax rules will be revised and will make clear the fact that experimental research will be eligible for application of this tax regime so long as it contains an R&D element. Therefore, we recommend that companies review the scope of applicability of this tax regime.

2. Introduction of a digital transformation (DX) investment promotion tax incentive

From the perspective of widely pushing forward corporate transformation via utilization of digital technology, the Industrial Competitiveness Enhancement Act will be revised and a tax credit or special depreciation measure concerning investments related to software implemented pursuant to a Business Adaptation Plan (tentative name) set forth under the same Act will be introduced.

(1) Overview of the Industrial Competitiveness Enhancement Act scheme

A scheme under the Industrial Competitiveness Enhancement Act will be introduced which entails receiving the certification of the central government of Business Adaptation Plans (tentative name) submitted by companies that will implement company-wide initiatives to develop new demand or raise productivity by carrying out new product development or by introducing new production or sales methods. By creating a new tax measure that targets cloud systems acquired pursuant to this plan, the aim is to encourage companies to build an environment supportive of digital connectivity and to phase out of legacy systems.

The Industrial Competitiveness Enhancement Act scheme within the tax measure to assist companies in strengthening industrial competitiveness (Overview)

Business Adaptation Plan (tentative name)

Key points for obtaining certification:

1. The plan is considered appropriate in light of the basic guidelines
   - ✓ The aim is either to raise productivity or develop new demand
   - ✓ Development of a new product or new service or introduction of a new production/sales method
   - ✓ The plan is supported on a company-wide basis (i.e., submission of documents proving that a resolution has been passed by the board of directors)
2. There is high likelihood that the plan will be carried out smoothly and resolutely
3. The plan is expected to be sustainable in the long-term

Major assistance measures:

Special tax measures (special depreciation/tax credit and a special measure concerning the maximum deduction of NOLs)

Financial assistance and special regulatory measures

Medium- to Long-term Environmental Adaptation Plan (tentative name)

Key points for obtaining certification:

1. Capital investment in production plants for manufacturing products that will accelerate carbon neutrality
   - ✓ The machinery is indispensable for manufacturing products that will accelerate carbon neutrality
   - ✓ The machinery will be used only for producing the aforementioned products
2. Investment in the introduction of cutting-edge facilities that will help the manufacturing process significantly conserve energy or accelerate carbon neutrality
   - ✓ The plan's target is to raise carbon neutral productivity of the company's economic activities above a certain level within three years

Special tax measure (tax credit/special depreciation)

Major points of confirmation:

1. Digital ("D") requirements (data sharing, phasing out of legacy systems, cybersecurity)
   - ✓ Merging and sharing of new data owned by other entities or data obtained by business operators using sensors with existing internal data
   - ✓ Utilization of cloud technology
   - ✓ DX certification has been obtained
2. Corporate transformation ("X") requirements (business model transformation, outputs, company-wide strategy)
   - ✓ Development of a new product or new service or introduction of a new production/sales method
   - ✓ Specific targets are set to enhance productivity or raise sales
   - ✓ Total investments equal 0.1% or more of sales

Special tax measure (special measure concerning the maximum deduction of NOLs)

Major points of confirmation:

- ✓ Submission of a plan listing the details of an investment aimed towards achieving future growth
- ✓ Setting of a performance target projected to be achieved within the plan's effective period
- ✓ An investment plan that describes details of activities to contribute to the company's growth (i.e., simply maintaining current conditions or renewing an investment are excluded from the scope)
- ✓ Investment results must be submitted to the relevant minister and the relevant minister must confirm the investment results

Source: Prepared based on materials published by the Liberal Democratic Party Tax Commission

The bill on revising the Industrial Competitiveness Enhancement Act will be submitted to the ordinary diet session in 2021. Under the Industrial Competitiveness Enhancement Act, assistance measures, including tax breaks (the DX investment promotion tax incentive, the special measure concerning the maximum deduction of NOLs and the carbon neutrality incentive) and financial assistance, will be introduced, targeting initiatives that have been certified. Companies must receive certification pursuant to the Industrial Competitiveness Enhancement Act in advance in order to receive application of the above tax breaks.

(2) Overview of the DX investment promotion tax incentive

a. Details of the special tax measure

In order to achieve sustainable growth of the economy, it is vital that companies undergo transformation by implementing DX. Based on this perspective, a tax measure will be introduced to encourage business transformation digital investments whereby connectivity, use of cloud systems, phasing out of legacy systems, and cybersecurity will be realized pursuant to a plan to create a new business. (Temporary measure lasting 2 years)

Introduction of a digital transformation (DX) investment promotion tax incentive (proposal)

Business Adaptation Plan (tentative name)

After fulfilling the Business Adaptation Plan certification requirements, a company is required to receive confirmation from the relevant minister regarding the following requirements:

1. Digital ("D") requirements (data sharing, phasing out of legacy systems, cybersecurity)
   - ✓ Merging and sharing of new data owned by other entities or data obtained by business operators using sensors with existing internal data
   - ✓ Utilization of cloud technology
   - ✓ Certification granted by the Information-technology Promotion Agency, Japan (DX certification)
2. Corporate transformation ("X") requirements (business model transformation, outputs, company-wide strategy)
   - ✓ Reduction of product manufacturing costs by 8.8% or more, etc.
   - ✓ Targets are set to enhance productivity or raise sales
     - An ROA increase of 1.5% compared to the base ROA (which equals the average ROA between 2014 and 2018) within the plan's effective period
     - Sales growth rate ≥ Sales growth rate of the same sector over the past five fiscal years + 5% achieved within the plan's effective period
   - ✓ Total investments equal 0.1% or more of sales

Details of the special tax measure

The following measure will be introduced regarding capital investments made pursuant to the Business Adaptation Plan (tentative name)

Eligible facilities*	Tax credit	Special depreciation
Software Deferred assets Machinery Equipment	3% (Those related to the sharing of data with other companies) 5%	30%

* Maximum total capital investment applicable: JPY30 billion.

Note 1: Initial expenses relating to the transition to systems utilizing cloud technology (deferred assets)

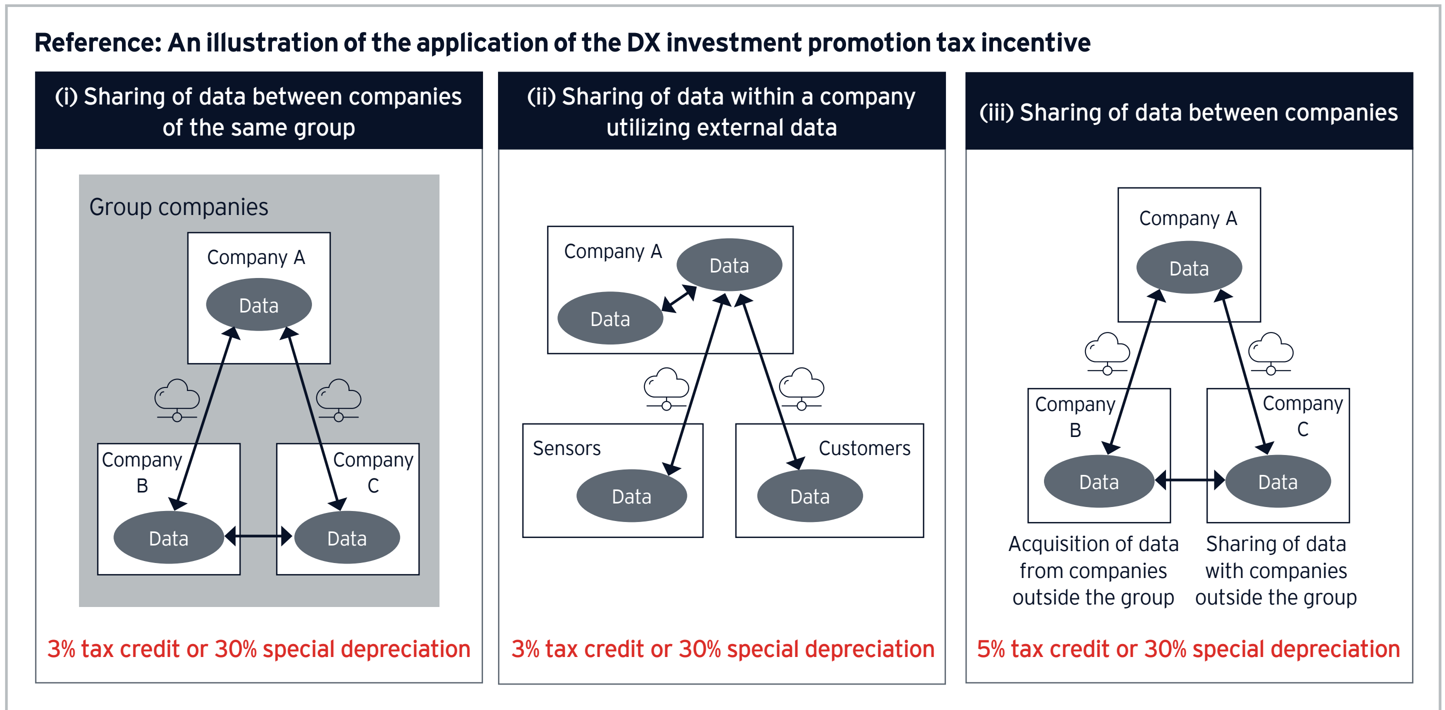
Note 2: Machinery and equipment are limited to those used in connection with software or deferred assets.

Note 3: The maximum tax credit applicable is 20% of the corporate tax amount of the current fiscal year in line with the tax incentive to promote carbon neutrality investments

Source: Prepared based on materials published by the Liberal Democratic Party Tax Commission

b. An illustration of the application of the DX investment promotion tax incentive

The main concept of this tax measure is to have companies phase out of their legacy systems by encouraging them to build an environment that supports digital connectivity. Additionally, tax credit rates vary depending on whether a company falls under category (i), (ii) or (iii).



Source: Prepared based on materials published by the Liberal Democratic Party Tax Commission

Major points to note are the following:

- ✓ As described in the digital ("D") requirements, prerequisites are the sharing of data and utilization of cloud technology.
- ✓ As described in the digital ("D") requirements, DX certification from the Information-technology Promotion Agency, Japan (IPA) must be received. The DX certification system is a system for approving business operators who will implement superior initiatives pursuant to the guidelines formulated by the central government (guidelines concerning the operation and management of information processing systems) on an application basis.
- ✓ Companies must also fulfill the corporate transformation ("X") requirements. In particular, attention is focused on the government's upcoming moves regarding details of the "etc." in the requirement, "reduction of product manufacturing costs by 8.8% or more, etc." and details of the requirement, "total investments equal 0.1% or more of net sales."
- ✓ As mentioned in Note 1 of the details of the special tax measure, although initial expenses relating to the transition to systems utilizing cloud technology (deferred assets) are included in the scope of this tax incentive, running costs are thought to be excluded from the same scope.
- ✓ As software may be eligible for either the R&D tax regime or the DX investment promotion tax incentive, companies need to carefully consider this point. (Repetition/Repost)
- ✓ On its homepage, METI introduces initiatives of companies it has selected and named "DX Stocks 2020." Such initiatives should serve as reference when companies consider adopting this tax incentive.

3. Introduction of a tax incentive to promote carbon neutrality investments

With regard to the issue of climate change, it is important to respond to various environmental and energy-related issues by transforming socio-economic systems and to create a positive cycle between the environment and growth.

In order to fulfill the extremely challenging target of achieving a carbon neutral society by 2050, the Industrial Competitiveness Enhancement Act will be revised and a tax credit or special depreciation measure will be implemented concerning investments made to introduce (1) facilities for manufacturing products that will accelerate carbon neutrality or (2) cutting-edge facilities that will help the manufacturing process significantly conserve energy or accelerate carbon neutrality pursuant to a Medium- to Long-term Environmental Adaptation Plan (tentative name) set forth by the same Act. (Temporary measure lasting 3 years)

Introduction of a tax incentive to promote carbon neutrality investments (proposal)

Medium- to Long-term Environmental Adaptation Plan (tentative name)

Certification of the plan by the Minister of Economy, Trade and Industry:

(1) Facilities for manufacturing products that will accelerate carbon neutrality (facilities for manufacturing products that develop medium- to long-term environmental adaptation demand)

a. The machinery must be indispensable for manufacturing products that develop medium- to long-term environmental adaptation demand*

b. The machinery will be used only for manufacturing products that develop medium- to long-term environmental adaptation demand

(*) Fuel cells and power semiconductors that demonstrate a particularly high performance

(2) Cutting-edge facilities that will help the manufacturing process significantly conserve energy or accelerate carbon neutrality ("facilities that enhance medium- to long-term environmental adaptation productivity")

- The plan's target must be set to raise added-value 7% within three years or 10% or more in terms of greenhouse gas volume emitted per business office (productivity that increases the carbon neutrality of economic activities).

Major assistance measures:

Special tax measures (special depreciation/tax credit) and financial assistance

Details of the special tax measure

The following measure will be introduced regarding facilities that are greatly effective in realizing carbon neutrality pursuant to the Medium- to Long-term Environmental Adaptation Plan (tentative name).

(1) Facilities for manufacturing products that develop medium- to long-term environmental adaptation demand

Eligible facilities	Tax credit	Special depreciation
Machinery	10%	50%

(2) Facilities that enhance medium- to long-term environmental adaptation productivity

Eligible facilities*	Tax credit	Special depreciation
Machinery Equipment Facilities attached to buildings Structures	5% (In the event the target is an enhancement of 10% or more) 10%	50%

(*) The facilities to be introduced must fulfill the requirement of enhancing the carbon neutral productivity of economic activities of the business office by 1%

- Maximum total capital investment applicable: JPY50 billion.

Note: The maximum tax credit applicable is 20% of the corporate tax amount of the current fiscal year in line with the DX investment promotion tax incentive.

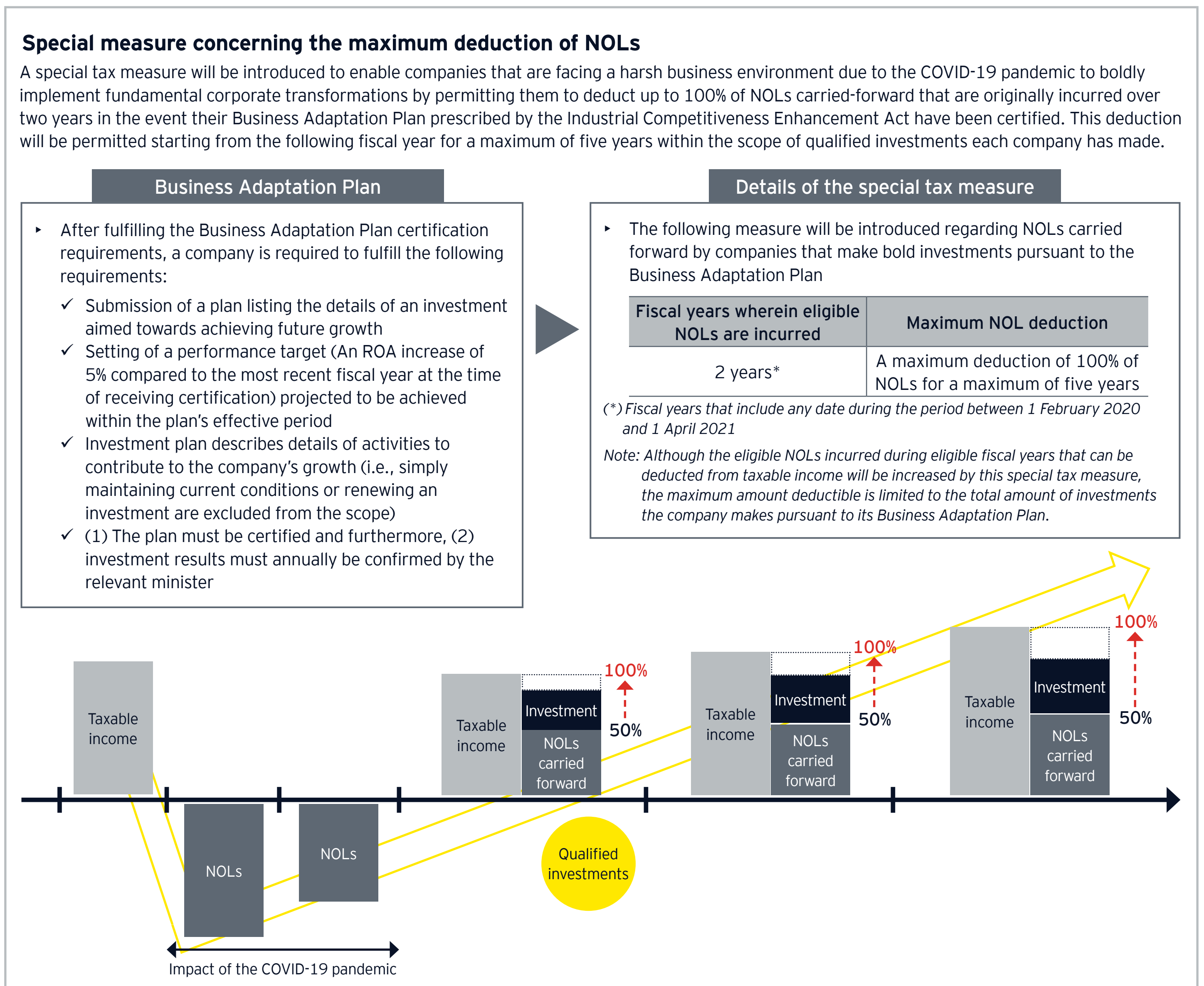
Source: Prepared based on materials published by the Liberal Democratic Party Tax Commission

This measure will be introduced based on the declaration made by Prime Minister Yoshihide Suga in his policy speech of 26 October 2020 to strive to achieve a carbon neutral society as a nation by 2050 (referring to the concept of offsetting greenhouse gas emissions and absorptions to net zero).

Since "(1) products that will accelerate carbon neutrality" are scheduled to be limited to fuel cells (lithium ion batteries), power semiconductors that demonstrate a particularly high performance, companies will need to keep an eye on the government's upcoming moves. On the other hand, it is thought that there will be such limits placed on "(2) investment in the introduction of cutting-edge facilities that will help the manufacturing process significantly conserve energy or accelerate carbon neutrality."

4. Special measure concerning the maximum deduction of net operating losses (NOLs) carried-forward

A tax measure will be introduced to allow entities that submit blue tax returns whose Business Adaptation Plan prescribed by the Industrial Competitiveness Enhancement Act has been certified and that hold eligible net operating losses (NOLs) during an current fiscal year when it implements the business adaptation prescribed by the same Act pursuant to said Business Adaptation Plan, to deduct the eligible NOLs within the scope of its taxable income prior to the application of NOLs carried-forward. (Regarding the portion exceeding 50% of taxable income, the amount that can be offset under this measure is limited to the outstanding amount of accumulated qualified investments.)



Special measure concerning the maximum deduction of NOLs

A special tax measure will be introduced to enable companies that are facing a harsh business environment due to the COVID-19 pandemic to boldly implement fundamental corporate transformations by permitting them to deduct up to 100% of NOLs carried-forward that are originally incurred over two years in the event their Business Adaptation Plan prescribed by the Industrial Competitiveness Enhancement Act have been certified. This deduction will be permitted starting from the following fiscal year for a maximum of five years within the scope of qualified investments each company has made.

Business Adaptation Plan

- After fulfilling the Business Adaptation Plan certification requirements, a company is required to fulfill the following requirements:
  - ✓ Submission of a plan listing the details of an investment aimed towards achieving future growth
  - ✓ Setting of a performance target (An ROA increase of 5% compared to the most recent fiscal year at the time of receiving certification) projected to be achieved within the plan's effective period
  - ✓ Investment plan describes details of activities to contribute to the company's growth (i.e., simply maintaining current conditions or renewing an investment are excluded from the scope)
  - ✓ (1) The plan must be certified and furthermore, (2) investment results must annually be confirmed by the relevant minister

Details of the special tax measure

- The following measure will be introduced regarding NOLs carried forward by companies that make bold investments pursuant to the Business Adaptation Plan

Fiscal years wherein eligible NOLs are incurred	Maximum NOL deduction
2 years*	A maximum deduction of 100% of NOLs for a maximum of five years

(*) Fiscal years that include any date during the period between 1 February 2020 and 1 April 2021

Note: Although the eligible NOLs incurred during eligible fiscal years that can be deducted from taxable income will be increased by this special tax measure, the maximum amount deductible is limited to the total amount of investments the company makes pursuant to its Business Adaptation Plan.

Source: Prepared based on materials published by the Liberal Democratic Party Tax Commission

Major points of caution are the following:

- As the Outline states that simply maintaining current investment conditions or renewing an investment are excluded from the scope, only proactive investments will be included in the scope, such as the development of new businesses and new products and the launching of such products into the market.
- Plans certified by the relevant minister in charge of the company's business will be publicized.
- Although NOLs incurred during FY2020 and FY2021 are eligible for deduction, NOLs incurred in FY2019 will also be eligible in the event the relevant authorities acknowledge that the company's business was impacted by the COVID-19 pandemic. However, the maximum number of eligible fiscal years is two.
- The relevant minister in charge of the company's business will confirm investments that are made pursuant to the certified business plan. The amount deductible under this special tax measure is limited to the company's investment amount that has been confirmed (a maximum deduction of 100%).

5. Introduction of a tax measure to encourage M&As remunerated with shares

A tax measure will be introduced to allow sellers that transfer shares they own and, in exchange, receive shares issued by the buyers (which are to become the parent entities of the target) pursuant to the share issuance regime set forth by the Companies Act to defer the recognition of the capital gains or losses arising from the share transfers.

Even if cash is paid alongside the buyer's own shares, so long as the value of the shares comprises 80% or more of the total remuneration, deferral of the recognition of the capital gains or losses arising from the share transfer will be permitted for the portion corresponding to those shares.

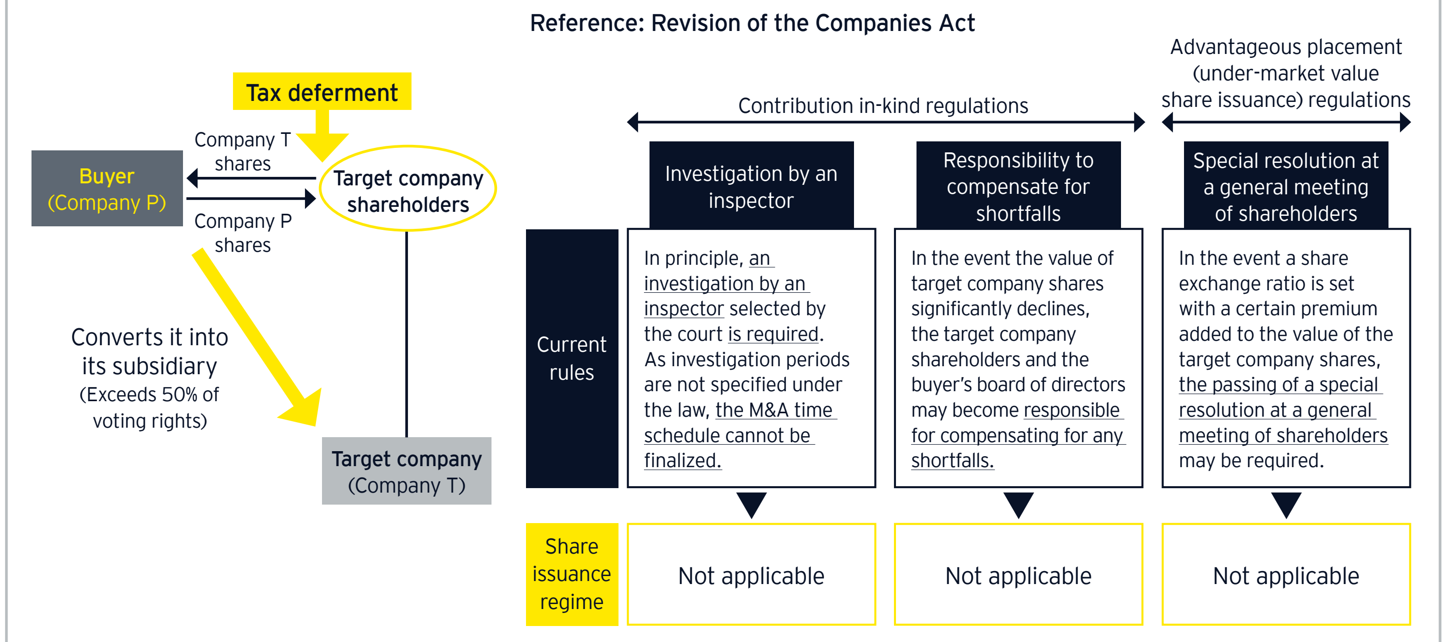
Tax measure for M&As remunerated with the buyer's own shares

Overview of the measure

Regarding the taxation of target company shareholders who are remunerated with the buyer's own shares when an M&A takes place, such shareholders will be permitted to defer capital gain or loss taxation on the target company shares they transfer in order to encourage companies to reconstruct their businesses with flexibility via utilization of the share issuance regime (Note 1), which was newly established through a revision of the Companies Act. (A special tax measure without any expiry)

Note 1: Set out to become effective in March 2021

Note 2: Regarding so-called mixed remunerations, whereby the buyer pays cash or other types of remuneration alongside its own shares, cash or other types of remuneration must be 20% or less of the total remuneration in order to be eligible.



Source: Prepared based on materials published by the Liberal Democratic Party Tax Commission

With regard to the applicability of this measure on foreign entities, this measure is applicable only to Japanese permanent establishments (PEs) of foreign entities that own the target company's shares and who receive the buyer's own shares in exchange for their shares. Therefore, foreign entities that do not have PEs in Japan are excluded from the scope of this measure.

Shareholders of foreign entities will be required to consider the consequences of taxation on capital gains on share transfers considered similar to business transfers in advance.

6. Revision of the tax regime to encourage wage increases and investments

The following requirements of the tax regime to encourage wage increases and investments for large enterprises will be revised to shift the focus of the tax regime on increases in wages paid to newly hired employees and education and training expenses.

Revision of the tax regime to encourage wage increases and investments

- From the perspective of preventing a second 'employment ice age' from occurring (when the hiring of new graduates significantly dropped) while ensuring that companies acquire new personnel and enhance personnel development, a tax measure will be introduced to grant tax credits for a certain percentage of the wages paid to new hires in the event companies increase a certain percentage or more of the wages they pay to new hires. (Temporary measure lasting 2 years)
- An additional tax credit rate will be granted to companies that also increase investments in personnel (education and training expenses) with the aim of transforming their businesses.

Current rules	Reform proposal
Requirements: (1) Amount of wages paid to regularly employed persons: An increase of 3% or more in comparison with that of the previous fiscal year (2) Domestic capital investment amount: 95% or more of the depreciation expenses of the current fiscal year (3) Amount of wages paid to all employed persons: Exceeds that of the previous fiscal year **Tax credit:** - A tax credit of 15% of the amount of increase in wages paid to all employed persons in comparison to the previous fiscal year - In the event the education and training expense increase requirement (education and training expenses of the current fiscal year ≥ 1.2 times the average education and training expenses incurred over the previous two fiscal years) is met, then a tax credit of 5% will be added (→ Total of 20%) - The tax credit is limited to 20% of the corporate tax amount	**Requirements:** (1) Amount of wages paid to newly employed persons: An increase of 2% or more in comparison with that of the previous fiscal year (2) Amount of wages paid to all employed persons: Exceeds that of the previous fiscal year **Tax credit:** - A tax credit of 15% of the amount of wages paid to newly employed persons* - In the event the education and training expense increase requirement (education and training expenses of the current fiscal year ≥ 1.2 times the average education and training expenses incurred over the previous fiscal year) is met, then a tax credit of 5% will be added (→ Total of 20%) - The tax credit is limited to 20% of the corporate tax amount

(*) This will be capped at the amount of increase in wages paid to all employees in comparison with the previous fiscal year.

Source: Prepared based on materials published by the Liberal Democratic Party Tax Commission

Since the amount of wages paid to all employed persons must exceed that of the previous fiscal year as stated in Requirement (2) of the reform proposal, please note that companies that merely increase new hires and decrease their overall wages will not be eligible for this tax measure.

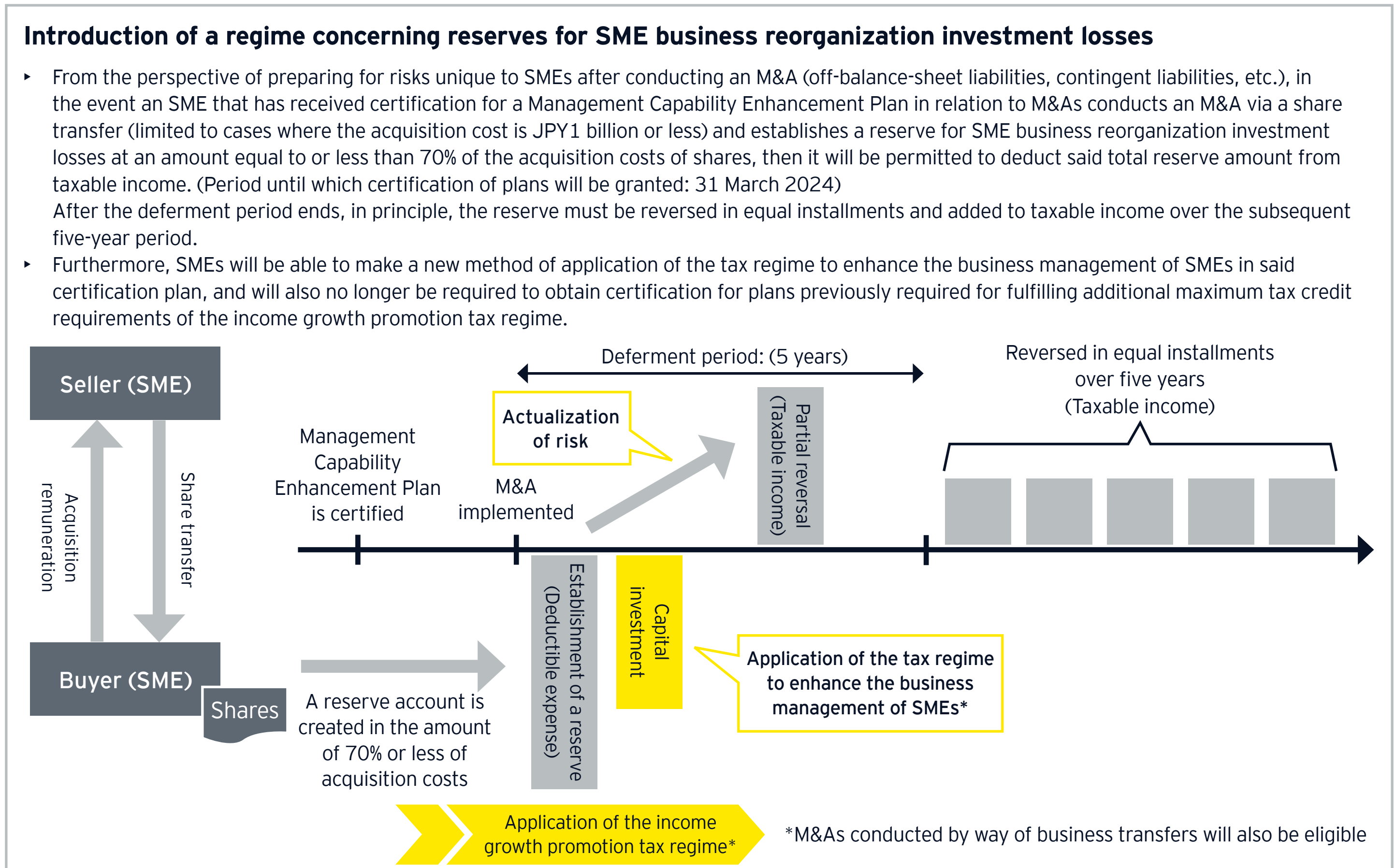
7. Introduction of a tax incentive to assist SMEs with the consolidation of their managerial resources

A tax measure will be introduced for small and medium-sized companies (SMEs) that submit blue tax returns and whose Management Capability Enhancement Plans under the Small and Medium-sized Enterprises Business Enhancement Act have been certified by the central government. In the event said type of SME acquires shares of another entity pursuant to the Management Capability Enhancement Plan relating to said certification (limited to acquisitions via purchase) and continuously owns said shares through the last date of the fiscal year that includes said acquisition date, and provided it reserves 70% or less of the acquisition costs of said shares as a "reserve for SME business reorganization investment losses" to prepare itself for potential losses incurred from a drop in the value of said shares, then it will be able to deduct the reserve amount from taxable income in the same fiscal year under said tax measure.

In the event said SME ceases to own all or a portion of said shares or it has decreased the book value of said shares, it should reverse the reserve amount and recognize the corresponding amount as income for tax purposes. Furthermore, said SME should reverse the balance of the reserve and recognize said amount as income for tax purposes equally over a five-year period starting from the fiscal year that includes the date when five years have elapsed from the day following the last day of the fiscal year when the reserve was first established.

Introduction of a regime concerning reserves for SME business reorganization investment losses

- From the perspective of preparing for risks unique to SMEs after conducting an M&A (off-balance-sheet liabilities, contingent liabilities, etc.), in the event an SME that has received certification for a Management Capability Enhancement Plan in relation to M&As conducts an M&A via a share transfer (limited to cases where the acquisition cost is JPY1 billion or less) and establishes a reserve for SME business reorganization investment losses at an amount equal to or less than 70% of the acquisition costs of shares, then it will be permitted to deduct said total reserve amount from taxable income. (Period until which certification of plans will be granted: 31 March 2024)
  After the deferment period ends, in principle, the reserve must be reversed in equal installments and added to taxable income over the subsequent five-year period.
- Furthermore, SMEs will be able to make a new method of application of the tax regime to enhance the business management of SMEs in said certification plan, and will also no longer be required to obtain certification for plans previously required for fulfilling additional maximum tax credit requirements of the income growth promotion tax regime.



Source: Prepared based on materials published by the Liberal Democratic Party Tax Commission

8. Other

(1) The special measure for the reduction of the corporate tax rate of SMEs (15%) will be extended by two years.

(2) The measure that prevents large enterprises from applying the R&D tax regime and other tax credit provisions related to the enhancement of productivity will be revised in the following manner, and the application period thereof will be extended by three years.

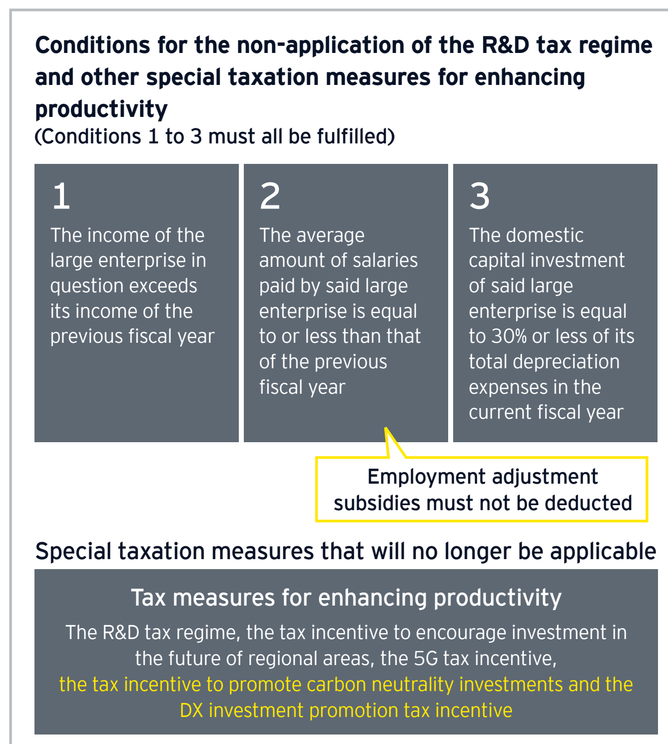
a. Tax credits for the tax incentive to promote carbon neutrality investments and tax credits for the DX investment promotion tax incentive shall be added to the scope of this measure.

b. When determining whether a company fulfills the requirement for the amount of wages paid to regularly employed persons (average amount of salaries paid), employment adjustment subsidies and other similar benefits must not be deducted.

Therefore, (i) the conditions for the non-application of the R&D tax regime and other special taxation measures for enhancing productivity and (ii) special taxation measures that will no longer be applicable after the 2021 tax reform are as depicted in the figure on the right.

(3) The real estate business, the goods rental business and the formal Japanese restaurant business shall be added to the scope of businesses eligible for application of the SME investment tax incentive and the application period thereof will be extended by two years.

In addition, with regard to the tax regime to enhance the business management of SMEs, facilities that assist the consolidation of managerial resources (Type D) shall be newly added as facilities that increase the effect of M&As, and the application period thereof will be extended by two years.



(4) In regard to the tax incentive to encourage investment in the future of regional areas, the supply chain business shall be added to the scope of eligible businesses, and the application period thereof will be extended by two years.

(5) With regard to the special tax measure pertaining to investment companies and the special tax measure for trust companies in relation to specified investment trusts, the requirement that specified assets exceed 50% of total assets will be revised so that monetary claims pertaining to finance lease transactions will be considered to be the relevant asset being leased through the respective finance lease transaction when calculating asset ratios.

International taxation

1. Revision to the treatment of foreign withholding tax levied on foreign subsidiary dividends

In relation to foreign subsidiary dividends, the deduction of foreign withholding taxes and the application of foreign tax credits shall be restricted to those amounts equivalent to the amount subject to adjustment for double taxation in relation to the JCFC (anti-tax haven) rules, and the treatment of such circumstances will be revised in the following manner.

(1) The deduction of foreign withholding taxes relating to dividends received from a foreign subsidiary (in which a minimum of 25% of outstanding shares have been held for 6 months or longer) will be restricted to the amount equivalent to the portion of dividends subject to adjustment for double taxation in relation to the anti-tax haven rules.

(2) The application of foreign tax credits for foreign withholding taxes relating to dividends received from foreign subsidiaries not described above will be permitted in concern to the amount equivalent to the portion of dividends subject to adjustment for double taxation in relation to the anti-tax haven rules.

Revision to the deduction of foreign withholding taxes levied on foreign subsidiary dividends and the foreign tax credit of the same

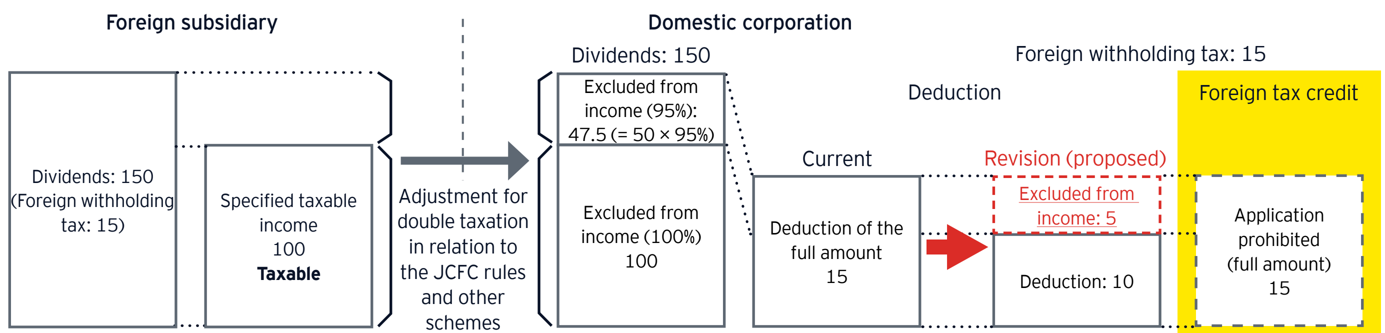
The following revisions will occur in concern to the treatment of foreign withholding taxes relating to dividends a domestic corporation receives from a foreign subsidiary.

(1) The deduction of foreign withholding taxes relating to dividends received from a foreign subsidiary (in which a minimum of 25% of outstanding shares have been held for 6 months or longer) will be restricted to the amount equivalent to the portion of dividends subject to adjustment for double taxation in relation to the JCFC rules. (Current rules permit the deduction of the full amount.)

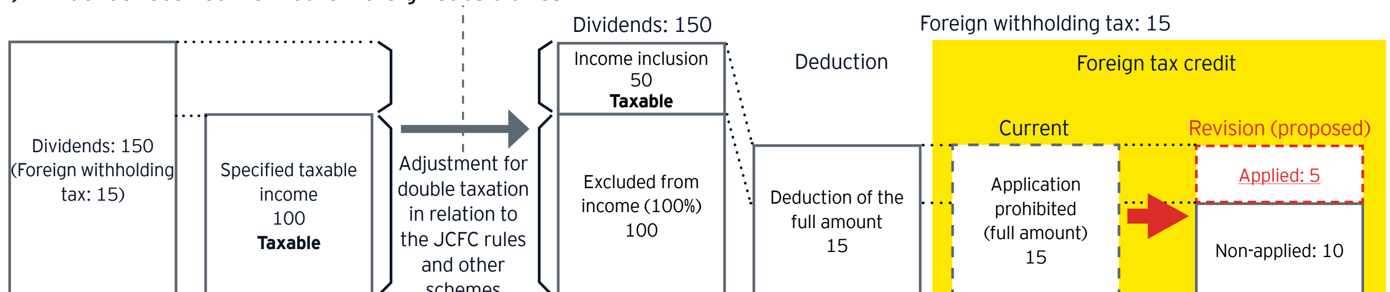
(2) The application of foreign tax credits for foreign withholding taxes relating to dividends received from foreign subsidiaries not described above will be permitted in concern to the amount equivalent to the portion of dividends subject to adjustment for double taxation in relation to the JCFC rules. (Current rules prohibit application of credits in concern to any such amounts.)

Note: The revisions described above will apply to dividends received in fiscal years beginning on or after 1 April 2021.

(1) Dividends received from a foreign subsidiary (in which a minimum of 25% of outstanding shares have been held for 6 months or longer)



(2) Dividends received from other foreign subsidiaries



Source: Prepared based on materials published by the Liberal Democratic Party Tax Commission

The necessity of modifications to the treatment of foreign withholding taxes levied on dividends received from foreign subsidiaries (in which a minimum of 25% of outstanding shares have been held for 6 months or longer) as set forth under these rules was indicated by the NTA during the 2019 tax reform in a contemporaneous opinion issued in response to the existence of situations in which the application of the anti-tax haven rules resulted in the deduction of a greater amount of foreign withholding taxes and thus gave rise to a lesser tax burden. Said modifications will be implemented through the 2021 tax reform.

2. Other topics

(1) Revision of the earnings stripping rules

The treatment of the special exemption concerning the taxation of certain net interest expenses (the earnings stripping rules) will be revised as follows.

a. The following amounts will be included in the amount of non-qualified interest expenses.

   (i) Any amount of scheduled interest allocated to insurance premium reserves in accordance with a life insurance plan or non-life insurance plan.

   (ii) Any amount of scheduled interest allocated to refund reserves in accordance with a non-life insurance plan.

b. An amount equivalent to the amount of interest income received by a corporation in concern to distributions of profit from a bond investment trust (i.e., the portion of profit distributions attributable to interest from public and private bonds) may be added to the total amount of interest income in the calculation of the amount of qualified net interest expenses (i.e., the amount remaining after deducting the total amount of deductible interest income from the total amount of qualified interest expenses).

(2) Revision of rules concerning the non-deductibility of interest arising from liabilities which correspond to capital attributable to permanent establishments of foreign corporations

In concern to the amount of non-deductible expenses determined in accordance with the rules concerning the non-deductibility of interest arising from any liabilities which correspond to capital attributable to the permanent establishment of a foreign corporation, the method for the calculation of said amounts will be revised such that the calculation is conducted by multiplying the total amount of interest arising from the liabilities pertaining to the business conducted through said permanent establishment with the ratio of its own capital shortfall to the total amount of outstanding liabilities, inclusive of any liabilities which give rise to said interest expense and any other liabilities pertaining to the procurement of capital (c.f. current rules, which utilize the total amount of liabilities which give rise to said interest expense).

(3) Provision of tax convention-related application forms through electromagnetic methods

The rules will be revised to provide parties, if withholding agents meet certain criteria, with the ability to submit the information required to be recorded on tax convention-related application forms through electromagnetic methods, in addition to the existing ability to submit such records through printed media.

The rules will also be revised to provide said parties with the ability to submit the certificates of residence that must be attached to the tax convention-related application forms in the form of electromagnetic records created through document scanning.

Individual taxation and asset taxation

1. Individual income taxation

(1) Revision of the housing loan tax credit

a. The special measure that extends the period individuals can receive housing loan tax credits to 13 years during periods when the consumption tax rate applied thereto is 10% will be extended.

The criteria for eligibility will be the conclusion of the relevant contract during the periods defined below, and the taxpayer must begin residing in said property between 1 January 2021 and 31 December 2022.

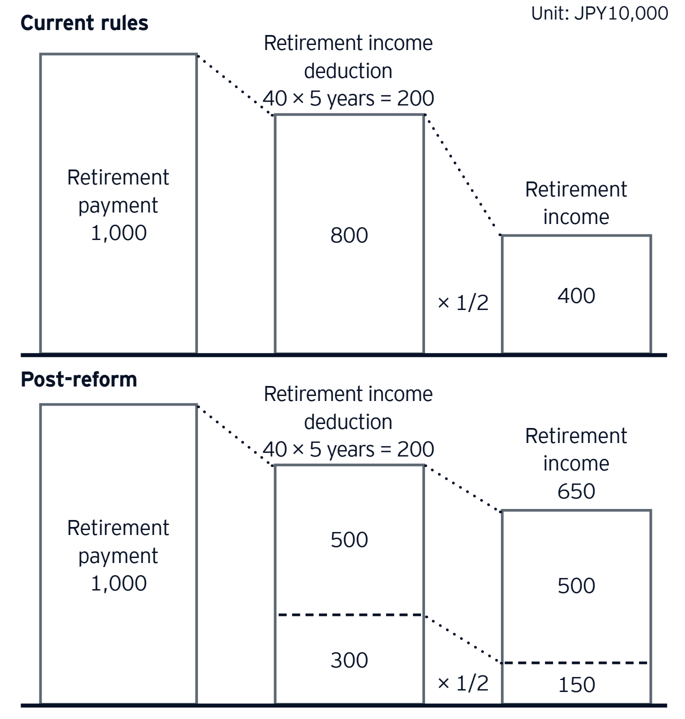
Category	Date of conclusion
Newly constructed	Between 1 October 2020 and 30 September 2021
Other	Between 1 December 2020 and 30 November 2021

b. The list of properties eligible for the provisions of a. will also be expanded to include housing of size $40m^2$ or greater but less than $50m^2$, and eligible taxpayers will be able to apply the special measure in years in which their total income is JPY10 million or less.

In response to the proliferation of housing loans borrowed at interest rates less than the credit rate of 1% provided by the housing loan credit, the housing loan credit amounts and credit rates will be revised during the 2022 tax reform.

(2) Rectification of retirement income taxation

Regarding the short-term retirement allowances provided to individuals who are not company directors and who have a tenure of 5 years or less, revisions will be implemented such that any amounts in excess of JPY3 million remaining after retirement income deductions are deducted from retirements payments will be exempted from the 50% taxation. These revisions will be applied to income taxes in 2022 and thereafter.



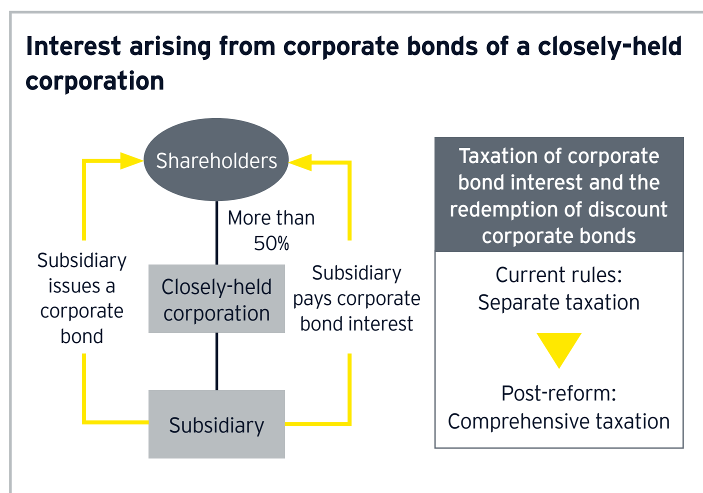
(3) Revision of the taxation of interest arising from bonds issued by closely-held corporation

Interest arising from corporate bonds issued by a closely-held corporation is currently subject to comprehensive taxation when paid to the individual shareholders of said closely-held corporation; interest arising from corporate bonds issued by first- and second-tier subsidiaries controlled by such individual shareholders through a closely-held corporation will also be subject to comprehensive taxation in such circumstances (cf. current rules, which stipulate separate taxation).

Profits from the redemption of discount corporate bonds will also be subject to identical treatment.

These revisions will be applied to payments made on or after 1 April 2021.

Interest arising from corporate bonds of a closely-held corporation



2. Asset taxation

(1) Measures for the exemption from taxes levied on funding received as a gift from a lineal ascendant for the acquisition of a residence

a. As detailed below, in concern to the measure providing an exemption from gift taxes levied on funds received as a gift from a lineal ascendant for the acquisition of a residence, a measure will be established to stipulate an increase in the maximum exemption afforded in concern to agreements pertaining to newly constructed housing, used housing or remodeling executed between 1 April 2021 and 31 December 2021, raising said maximum to the maximum stipulated in concern to the period from 1 April 2020 to 31 March 2021.

Category	Current rules	Post-reform
Housing subject to the 10% consumption tax rate	JPY12 million	JPY15 million
Other housing	JPY8 million	JPY10 million

The aforementioned amounts are the maximum tax exemptions stipulated in concern to earthquake-resistant, eco-friendly or barrier-free housing, and the maximum exemptions stipulated in concern to general housing will be reduced to JPY5 million less than the amounts indicated above.

b. The minimum floor space requirement will be lowered to 40m² (from the current 50m²) in instances where the total income of the gift recipient relevant to income taxes in the year in which they received the gift is JPY10 million or less.

Current rules	Post-reform
The minimum floor space requirement is 50m², even in instances where the total income in the year in which the gift is received is JPY10 million or less.	The minimum floor space requirement will be lowered to 40m² in instances where the total income in the year in which the gift is received is JPY10 million or less.

The revisions described above in a. and b. will be applied to gifts received in 2021 and thereafter.

(2) Revision of measures for the exemption from gift taxes of lump-sum gifts of educational funds

a. In concern to lump-sum gifts of educational funds received from a lineal ascendant, in the event that said donor of the funds becomes deceased on or before the expiry date of the term of the educational fund management agreement, the residual managed balance will be deemed to have been acquired by the recipient through inheritance on the date of the donor's death, irrespective of the number of intervening years prior to their death. (Current rules provide stipulations only in regard to gifts received within 3 years prior to the date of the death of the donor.)

However, in the event that the gift recipient is less than 23 years of age, is enrolled in school, or is undergoing education or training eligible for the provision of the education and training benefit, the aforementioned rules shall not apply. (The current rules contain equivalent stipulations.)

b. In concern to residual managed balances deemed to have been acquired through inheritance through the aforementioned provisions described in a., the amount of inheritance taxes pertaining to said managed balance at the time of the death of the donor will be subject to an additional 20% levy in the event that the recipient is the grandchild of the donor (cf. current rules, which contain no such provisions).

In addition to the establishment of the aforementioned measures, the applicable period of these measures will be extended by two years to 31 March 2023. The reforms described above in a. and b. will also be applied to trust beneficiary rights acquired through a trust on or after 1 April 2021.

(3) Revision of measures for the exemption from gift taxes of lump-sum gifts of marriage and child-rearing funds

a. In concern to the residual managed balance of marriage and child-rearing funds at the time of death of the lineal ascendant who made the gift as a lump-sum, the amount of inheritance taxes pertaining to said residual managed balance at the time of the death of said donor will be subject to an additional 20% levy in the event that the recipient is the grandchild of the donor (cf. current rules, which contain no such provisions).

In addition to the establishment of the aforementioned measures, the applicable period of these measures will be extended by two years to 31 March 2023. This reform will also be applied to trust beneficiary rights acquired through a trust on or after 1 April 2021.

b. The requirement for the minimum age of the recipient of such gifts will be lowered to 18 years of age (cf. minimum of 20 years of age under the current rules).

In addition to the establishment of the aforementioned measures, the applicable period of these measures will be extended by two years to 31 March 2023 This reform will also be applied to trust beneficiary rights acquired through a trust on or after 1 April 2022.

(4) Relaxation of the criteria for the deferment of inheritance taxes levied on non-listed shares

In concern to the special measure which stipulates the rules for the deferment of inheritance taxes levied on non-listed shares, the director criteria, which currently requires the successor to be a director of a specially approved successor company immediately prior to the commencement of the inheritance from the decedent, will be relaxed.

Instances in which fulfillment of the director criteria is unnecessary

Current rules	Post-reform
‣ The previous business operator and grantor was less than 60 years of age upon death	‣ The previous business operator and grantor was less than 70 years of age upon death ‣ The successor is an individual listed as a specially approved successor on a specially approved succession plan.

Tax measures to facilitate the development of an international financial hub

To ensure Japan's position as an international financial center, and with the aim of providing overseas investors, foreign financial business operators and highly skilled financial professionals easier entry to the Japanese market, the 2021 tax reforms will establish the following tax measures.

1. Relaxation of criteria for the deduction of performance-linked compensation provided to executive directors

The performance-linked compensation of directors of non-listed, non-closely-held corporations whose primary business is investment management services will become a deductible expense for corporate tax purposes upon fulfillment of all of the following conditions in light of circumstances where such compensation is generally subject to the scrutiny of investors and other stakeholders. This revision is predicated on the enactment of future amendments to the Financial Instruments and Exchange Act:

- The corporation which employs the executive director files blue tax returns and qualifies as a specified investment management business operator (Note 1), and pays performance-linked compensation (Note 2) to the executive director in each of the fiscal years beginning during the period from 1 April 2021 to 31 March 2026 (limited to the fiscal years which end on or after the date of the enforcement of the Act Amending the Financial Instruments and Exchange Act.)
- Fulfills the criteria concerning pre-approval by investors (Note 3)
- Business reports prepared by the corporation in accordance with the Financial Instruments and Exchange Act are published on the internet by the Commissioner of Financial Services Agency
(In the application of the rules concerning the deductibility of the performance-linked compensation of directors, said business reports are deemed equivalent to the annual securities reports (*yuho*) in which indicators of profits and other required information are to be recorded.)
- Details concerning the methods by which said performance-linked compensation is calculated are listed on and submitted via the aforementioned business report promptly on or after the date on which the procedures regarding the decisions made by the compensation committee are completed; and listed on the explanatory documents stipulated by the Financial Instruments and Exchange Act and thereafter published or provided for public inspection
(In the application of the rules concerning the deductibility of the performance-linked compensation of directors, the aforementioned details concerning the methods of calculation will be treated as fulfilling the criteria for disclosure via annual securities reports.)

Note 1: The phrase, specified investment management business operator, refers to a corporation (excluding corporations which file annual securities reports and their wholly owned subsidiaries) which derives 75% or more of their total revenue in the respective fiscal year from the following activities.

a. *Investment management businesses as stipulated in concern to financial instruments business operators*
b. *Specially permitted businesses for qualified institutional investors as stipulated in concern to parties who file notifications for specially permitted businesses*
c. *Specially permitted businesses for overseas investors (name tentative) as stipulated in concern to parties who file notifications for specially permitted businesses for overseas investors (name tentative)*
d. *Specially permitted transitory period businesses (name tentative) conducted during the transitory period by parties who conduct said businesses and who have submitted the requisite notification*

Note 2: Performance-linked compensation refers only to objective amounts determined based on indicators concerning the profits generated through the investment management of AUM.

Note 3: Fulfillment of the "criteria concerning pre-approval by investors" refers to the fulfillment of any of the following conditions.

a. *Disclosure of both the provision of performance-linked compensation and the calculation method pertaining thereto in the fund agreements relevant to the managed assets of the paying entity*
b. *Furnishing of a report concerning the provision of performance-linked compensation and the calculation method pertaining thereto at a meeting of the partners of the limited partnership for the managed assets that is held prior to the commencement of the fiscal year in which the application of the provisions of these rules are sought, and the meeting minutes concerning said meeting contain no indication or record of remarks made by any such partner voicing opposition to the contents of said report*

2. Special measure concerning the levying of inheritance tax and gift tax on foreign assets in relation to highly skilled foreign professionals

In the interest of facilitating the employment of highly skilled foreign professionals in Japan, the rules concerning assets conferred by foreign persons who reside in Japan for work or other purposes through inheritance or bequest will be revised such that the foreign assets of such individuals thus acquired by other foreign persons who reside outside of Japan, or who reside in Japan for short durations of time for reasons of employment or other purposes, will not be subject to inheritance tax nor gift tax, regardless of the length of residency of the conferrer.

Specifically, foreign assets acquired through inheritance, bequest or donation by persons who either possess a status of residence permitting habitancy in Japan for a short duration of time or are foreign persons residing outside of Japan will not be subject to inheritance tax or gift tax when said assets are received from a person who possesses a status of residence permitting habitancy in Japan upon the initiation of inheritance proceedings or at the time of donation.

The phrase, status of residence, refers to the statuses of residence listed in the left-hand column of Appended Table 1 of the Immigration Control and Refugee Recognition Act.

3. Clarification of the tax implications concerning carried interest distributed to fund managers

In concern to distributions of fund (a partnership whose business is the transfer of shares) profits received by a fund manager in excess of the proportion of their contribution to the fund (i.e., carried interest) from which said payments are received, clarification will be provided to indicate that, in certain instances (e.g. the distribution ratio has an economic rationale etc.), they are to be treated as capital gains on share transfers subject to separate taxation (to which a single tax rate is applied), rather than as compensation for services subject to comprehensive taxation (to which a marginal tax rate is applied) for individual income tax purposes. The Financial Services Agency will establish the requisite measures to ensure the convenience and accuracy of returns filed by fund managers in such circumstances.

4. Measures concerning the special taxation for foreign partners

The following measures will be established in reference to the special taxation for foreign partners[1].

a. Revision of the criteria pertaining to the ratio of equity interest in partnership assets[2] in relation to investment partnership agreements eligible for the special exemption

In the event that a foreign partner has made contributions to an investment partnership agreement eligible for the special exemption via a partnership agreement other than said investment partnership agreement eligible for the special exemption (hereafter, specified partnership agreement (Note 1)), the equity ratio criteria will be determined based on the ratio of equity interest to the investment partnership eligible for the special exemption held by the foreign partner and related individuals (hereinafter collectively referred to as Foreign Partner), i.e. the ratio that is the sum of (i) the equity interest directly contributed from the Foreign Partner and (ii) the equity interest contributed from the specified partnership agreement attributable to the said Foreign Partner.

Note 1: The term specified partnership agreement refers to partnership agreements pertaining to partnerships which have directly concluded an investment partnership agreement to which the special exemption is applied (i.e., an investment partnership agreement eligible for application of the special taxation for foreign partners) and that fulfill all of the following criteria.

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[1] A special measure which deems foreign partners (non-residents and foreign corporations party to an investment partnership agreement) who own permanent establishments related to the business of an investment partnership to not own said permanent establishments upon the fulfillment of established criteria (Article 41-21, paragraph (1) and Article 67-16, paragraph (1) of the Act on Special Measures Concerning Taxation). As a result, the scope of the domestic source income subject to taxation in Japan for such foreign partners is reduced, and there are usually no filing obligations for tax returns and no tax payments required in Japan; and simultaneously profit distributions from the partnership business are exempt from paying withholding taxes in Japan.

[2] A precondition is that the greater of (a) the ratio of equity interest in the partnership assets held by a foreign partner in concern to an investment partnership agreement; and (b) the profit distribution ratio enjoyed by the foreign partner, is less than 25%. The current rules stipulate that, in the event that a foreign partner which is party to an investment partnership agreement to which the special exemption is applied is itself another partnership (i.e., a fund of funds), fulfillment of the equity interest ratio criteria is to be determined based on the equity interest held by said other partnership at the fund of funds level.

- *The total ratio of equity interest in the partnership assets pertaining to said specified partnership agreement that is held by said Foreign Partner is less than 25%.*
  (In the event that the total ratio of equity interest in the partnership assets pertaining to a partnership agreement pertaining to a partnership which has directly concluded said specified partnership agreement that is held by the Foreign Partner is 25% or greater, parties who hold equity interest in the partnership assets pertaining to said partnership agreement (excluding said foreign partner and related individuals) will be included in the consideration of the aforementioned criteria.)
- *The parties who hold equity interest in said investment partnership assets that are considered partnership assets pertaining to said specified partnership agreement do not perform any important duties relating to operation of the aforementioned investment partnership agreement to which the special exemption is applied.*

The term Foreign Partner refers to a foreign partner of a partnership and any persons who have a special relationship to said foreign partner.

In brief, in the event that a partner to a partnership agreement to which the special exemption is applied that is itself a partnership based on a specified partnership agreement, the determinations made in concern to the criteria pertaining to the equity interest ratio will be measured by employing the equity interest ratio at the level of the foreign partner party to said specified partnership agreement and related individuals, rather than through the equity interest ratio held by said specified partnership agreement in the partnership agreement to which the special exemption is applied.

Accordingly, in the event that a Foreign Partner (a foreign investor) invest in a Japanese partnership through a foreign partnership (foreign fund), said foreign investor will be treated as having fulfilled the equity interest ratio criteria if the equity interest ratio (calculated at the level of individual foreign investors) held by said foreign investor is 25% or less, even if the equity interest ratio of said foreign fund in the Japanese partnership is itself 25% or greater.

b. Digitalization of the procedures to file an application for the special exemption

- In concern to applications for the special exemption and copies of the agreements pertaining to an investment partnership agreement to which the special exemption is applied, in addition to the existing method of submitting printed records to the coordinator of profit distributions, submission of necessary data through electromagnetic methods shall also be permitted.
- Permitted alongside the existing method whereby the coordinator of profit distributions prepares copies of the application for the special exemption and related materials and retains said copies will be the preparation and retention of electromagnetic records which record the information that must be recorded on the application for the special exemption and related materials.

c. Submission of copies of applications for the special exemption and investment partnership agreements to which the special exemption is applied at the frequency of once every five years

d. Other necessary measures

The tax reforms outlined above are expected to provide the following benefits.

- Extension of eligibility for the deduction of performance-linked compensation to investment management business operators that are not corporations who file annual securities reports, thus providing such parties with treatment equal to that of corporations who do file annual securities reports.
- Exemptions from inheritance tax on foreign assets even in the case of specific categories of foreign persons who have resided in Japan for long durations (cf. current rules, which stipulate that only foreign persons who have resided in Japan for a short duration are eligible for the exemption), a change which is expected to attract highly skilled foreign professionals to Japan.
- Increased entry to the Japanese market by foreign investment management business operators and inflow of foreign investor capital, enabled by the clarification of the tax implications for certain types of fund performance fees (i.e., carried interest) and partial relaxation of the criteria governing PE taxation of foreign fund participants

However, as the reforms contain measures which rely on the revision of the Financial Instruments and Exchange Act and calls for the relevant agencies to establish the measures necessary to achieve greater clarification, parties interested in discerning the details of the reforms will be required to confirm the details of future regulations, basic circulars and other announcements.

Tax administration

(1) Revision of the electronic ledger retention (e-retention) rules

a. Simplification of procedures relating to the e-retention rules concerning ledgers

The system whereby prior approval from the district director of a tax office is required to electronically preserve ledgers and documents related to national taxes will be abolished. In addition to the relaxation of the conditions relating to the preservation of electronic ledgers, the amount of additional taxes levied due to underreported tax returns will be reduced when the underreported tax returns are filed in relation to electronic ledgers fulfilling the conditions applicable under the current rules.

	Current rules	Proposed reforms
Application for approval	The preservation of ledgers and related documents prepared by electronic means as electronic data requires the submission of the application for approval to the district director of the presiding tax office at minimum 3 months prior to the commencement of such recordkeeping.	Elimination of the prior approval system
Preservation criteria	Permission to preserve records as electronic ledgers is extended only to records fulfilling the following criteria: 1) Revision records are preserved 2) Ledgers are mutually interrelated 3) Records are searchable 4) Records are equipped with monitors and instruction manuals	Taxpayers who have preserved electronic data in a manner which fulfills all of the conditions applied under the current rules, and who have submitted notification of such actions, will receive a 5% reduction of the additional taxes levied on underreported tax returns in the event that an underreported tax return is filed in relation to said electronic records (certified electronic ledgers)
Records not fulfilling the preservation conditions	Electronic ledgers which do not fulfill the conditions listed above in 1) to 4) may not be preserved as electronic data, and must be printed out and preserved in physical form	Electronic ledgers which fulfill the conditions listed under 4) at left may be preserved as electronic ledgers under the category of normal electronic ledgers (and are not required to be printed out and preserved in physical form)

Subsequent to the enactment of these reforms, ledgers and documents related to national taxes will be categorized into either certified electronic ledgers (which fulfill criteria existing under the current rules such as the revision/deletion condition and the mutual interrelationship condition) or normal electronic ledgers (the designation for records not fitting into the aforementioned category), and will be subject to different treatments and criteria.

A brief comparison of the preservation criteria under the current rules and the preservation criteria that will govern certified electronic ledgers and normal electronic ledgers following the reforms can be found below.

Criteria		Current rules	Certified electronic ledgers	Normal electronic ledgers
Application for preservation required		○	×	×
Guarantee of integrity	Preservation of records of revision or deletion	○	○	×
	Mutual interrelation	○	○	×
	Attachment of related documents	○	○	○
Guarantee of visibility	Guarantee of readability	○	○	○
	Guarantee of search functionality	○	△*	×

**Following the reforms, records must fulfill the search functionality criteria described below in b.*

b. Simplification of the requirement to guarantee search functionality

The requirement to guarantee search functionality for electronic preservation of books and documents related to national taxes will be simplified in the following manner. The requirements for the guarantee of search functionality in the scanned document preservation rules and the rules concerning the preservation of electronic data pertaining to transaction-related information concerning electronic transactions will also be simplified in an equivalent manner.

	Current rules	Proposed reforms
(A)	The ability to set transaction dates, accounts, transaction amounts, transaction party accounts and other major record items determined for each type of ledger related to national tax as search parameters	The search parameter requirements will be limited to dates, amounts and transaction party
(B)	The ability to set a range as the search parameter for record items relating to dates or amounts	Taxpayers under the obligation to preserve records will not be required to ensure the fulfillment of the search functionality criteria listed at left under (B) and (C) when complying with a request for the download of said records by tax officers made in accordance with the right to question or inspect*
(C)	The ability to set an arbitrary combination of two or more record items as search parameters	

**Taxpayers under the obligation to preserve records who have net sales of JPY10 million or less will not be required to fulfill any of the search functionality criteria listed under (A), (B), or (C) when complying with a request for the download of records as described above.*

c. Relaxation of the criteria pertaining to the scanned document preservation rules and establishment of measures to ensure the prevention of fraud

The procedures relating to the scanned document preservation rules, which enable the retention of scanned images of paper receipts in place of said physical copies, will be relaxed. Conversely, the additional penalty tax levied upon the discovery of falsification and other acts of fraud conducted in relation to electronic data will be made more severe.

	Current rules (under the express method)	Current rules (under the expedited (following the conclusion of the business cycle) method)	Proposed reforms
Application for approval	The preservation of receipts received from transaction parties through the preservation of scanned images requires the submission of an application for approval to the district director of the presiding tax office at minimum 3 months prior to the commencement of such recordkeeping.		Elimination of the prior approval system
Deadline to append a timestamp	Appending of a timestamp within approximately 3 business days of receipt, in the event that the timestamp is appended by the recipient	Appending of a timestamp within a maximum of 2 months and approximately 7 business days of receipt, when the timestamp is appended by a person other than the recipient	▸ The maximum length of time allotted for the appending of a timestamp is standardized at 2 months and 7 business days of receipt ▸ Timestamps are not required when the records are input into a system in which records of revisions and deletions are retained within a maximum of 2 months and approximately 7 business days of their receipt
Other preservation criteria	Any receipts scanned by the recipient are signed directly by the recipient	The signing of receipts is not required	Abolishment of the requirement for the signing of receipts
	Confirmation of the contents by a third party (and confirmation of the original copy when necessary)	Third party checks of images scanned by the recipient against the original copy	Third party checks of images scanned by the recipient against the original copy are not required
	Periodic inspections required (reconciliation of the data and the original copy)	Periodic inspections required (reconciliation of the data and the original copy)	Periodic inspections (reconciliation of the data and the original copy) are not required
Penalties	No additional penalties other than heavy additional taxes levied, even upon the discovery of the falsification of scanned images or other fraudulent acts		A 10% additional tax is added to the additional penalty tax levied upon the discovery of falsification and other acts of fraud conducted in relation to scanned images

**Refer to b. above for details concerning the revision of the requirement for the guarantee of search functionality.*

d. Revision of the criteria pertaining to the rules concerning the preservation of data pertaining to electronic transactions

The deadline to append timestamps under the rules concerning the preservation of electronic data pertaining to transaction-related information concerning electronic transactions will be made identical to the deadline allotted under the scanned document preservation rules.

	Current rules	Proposed reforms
Measures concerning data preservation (timestamps)	When utilizing the appending of timestamps as the method of retaining the electronic data of receipts received from a transaction party, the affixture of said timestamps must be conducted promptly upon receipt	The maximum length of time allotted for the appending of a timestamp is standardized at 2 months and 7 business days post receipt, a length equivalent to that allotted in the case of scanned document storage
Storage method	Electronic transaction data may be printed and retained in physical form	The measure stipulating that electronic transaction data may be printed and retained in physical form will be abolished
Penalties	No additional penalties other than heavy additional taxes levied, even upon the discovery of the falsification of electronic transaction data or other fraudulent acts	A 10% additional tax is added to the additional penalty tax levied upon the discovery of falsification and other acts of fraud conducted in relation to electronic transaction data

**Refer to b. above for details concerning the revision of the requirement for the guarantee of search functionality*

e. Rectification of the scanned document preservation rules and the methods for storing electronic data pertaining to electronic transactions

In relation to the electronic data concerning documents related to national tax produced and retained after scanning, and in regard to electronic data concerning the transaction data for electronic transactions, data found to be in violation of the post-tax reform preservation requirements described above in b. and c. or any other applicable requirements will not be treated as (i.e., accepted as proof of) documents related to national tax for the purposes of income tax and corporate tax declarations. (Safe harbor rules may apply.)

f. Applicability

These revisions will come into force on 1 January 2022.

Application of the normal electronic ledger rules will commence in concern to books related to national tax whose preparation commences on or after 1 January 2022, while application of the rules regarding certified electronic ledgers will begin in concern to national taxes whose statutory reporting deadline is on or after 1 January 2022.

Application of the scanned document preservation rules will commence in regard to documents related to national tax whose retention begins on or after 1 January 2022, while application of the rules concerning electronic transactions will commence in regard to transaction data for electronic transactions occurring on or after 1 January 2022.

The abolishment of the prior approval system and the relaxation of the statutory criteria eliminate obstacles to facilitate the digitalization of books and invoices and give rise to expectations that corporations will accelerate their efforts toward digitalization. Given the contrasting introduction of measures which increase the additional penalty taxes imposed upon discovery of fraudulent acts related to digitalization and measures which deny the treatment of retained data as documents related to national taxes when said data is retained in a manner which violates the conditions imposed in relation to scanned documents or digital transactions, however, the implementation of digitalization initiatives will require the taxpayer fully understand the requirements for retention and successfully establish management systems capable of observing said requirements.

(2) Revision of obligations to affix seal impressions on tax-related documents

In concern to tax-related documents to which the affixing of the seal of the taxpayer is required prior to submission to the district director of a tax office or similar party, the obligation to affix a seal will generally be abolished; notwithstanding, however, tax-related documents to which the affixing of a registered seal impression and attachment of a registered seal certificate is required, as said documents will remain subject to the existing requirements.

Although these revisions will be applied to tax-related documents submitted on or after 1 April 2021, even prior to the enforcement date the affixing of a seal will in practice not be required in concern to those tax-related documents not subject to the requirement to affix a seal thereto.

Examples of documents which will no longer require seals	Examples of documents which will continue to require seals
‣ Final tax returns ‣ Application for Exemption for Dependents of Employment Income Earner	‣ Agreement on Division of Inheritance ‣ Real Estate Mortgage Registration Agreement ‣ Letter of Guarantee in Concern to Tax Payment

(3) Countermeasures to combat international tax collection avoidance

a. Expansion of the scope of parties deemed guilty of evading disposition for delinquent tax

The scope of parties deemed guilty of evading disposition for delinquent tax, a punishment levied on parties found to have concealed assets with the intention to avoid the disposition of delinquent tax, will be expanded to include cases in which a taxpayer or related party is found to have conducted acts such as the concealment of foreign assets with the intention to avoid the collection of taxes through a request for mutual assistance in the collection of unpaid taxes. This revision will be applied to violations occurring on or after 1 January 2022.

b. Expansion of the scope of parties subject to secondary tax obligations to include recipients of uncompensated transfers

In relation to delinquent national taxes subject to a request for mutual assistance in the collection of unpaid taxes, in the event that a shortfall remains subsequent to dispositions for delinquent tax or mutual assistance in the collection of unpaid taxes, and the origin of said shortfall is the uncompensated transfers of foreign assets on or after the date one year prior to the statutory payment deadline, the authority will be permitted to impose on the recipients of said uncompensated transfers the obligation to pay secondary tax. This revision will be applied to national taxes which become delinquent on or after 1 January 2022.

As the disposition for delinquent taxes is a disposition which may only be executed in concern to domestic assets subject to the executive jurisdiction of the tax authority, taxpayers have been able to evade mutual assistance in the collection of unpaid taxes by transferring and concealing assets in countries to which Japan can make no such requests; and similarly to evade the obligation to pay secondary tax liabilities through the voluntary conveyance of assets to related parties. The revisions described above in a. and b. are considered measures which aim to discourage parties from conducting the malicious actions described above and prevent international tax avoidance.

(4) Expansion of the tax agent system

As the economic activities of non-residents and foreign entities that are not based in Japan increase, measures to ensure the appropriate appointment of tax agents will be introduced to enable the tax authorities to conduct effective tax audits.

a. Request for the selection a tax agent and subsequent notification

When the need arises to conduct a tax audit on a taxpayer required to select a tax agent, the tax authority will, following the disclosure of the duties (i.e., specified actions) which engender the need for tax agency, be allowed to request that taxpayer to complete within a designated time period the selection of a tax agent and filing of the related notification therefor.

b. Request to accept an appointment as tax agent

The tax authority will be permitted to request that a party who has a domicile or place of residence in Japan and provides services in regard to the aforementioned specified actions (a domestic service provider) act as the tax agent for the aforementioned taxpayer.

c. Selection of a specified tax agent by the tax authority

In the event that the taxpayer does not comply with the request in a, and does not submit a notification of a tax agent by the specified deadline, the tax authority will be allowed to designate, from among any of the domestic service providers who received the request issued in b. above and are categorized as a domestic related party specified below, a specified tax agent that is mandated to complete the aforementioned specified actions.

Scope of domestic related parties

Taxpayer category	Domestic related parties the tax authority may designate as tax agents
Corporations	‣ Persons who have a significant relationship with the taxpayer recognized as a special relationship under the transfer pricing rules (e.g. corporations with which the taxpayer has a shareholding relationship of 50% or greater) ‣ Directors of the taxpayer and any relatives who share a household therewith
Individuals	‣ Relatives of the taxpayer who reside in Japan (and are adults who share a household therewith)
All categories	‣ Parties who, in accordance with an agreement executed with the taxpayer, have a close relationship (Note 1) with the assets, business or transaction which constitutes the grounds for taxation ‣ Transaction intermediaries performing a continuous role in relation to digital content distributed by the taxpayer (Note 2)

Note 1: In the context of real estate transfers, this includes property management companies, parties collaborating with non-resident individuals to conduct business and other specified parties.

Note 2: E.g., platform providers

d. Effective period

These revisions will be applied to the categories of requests outlined above from a. to c. made on or after 1 January 2022.

(5) Digitalization of tax payment procedures and other miscellaneous topics

a. Establishment of methods for tax payment via smartphone applications

The payment of national taxes in accordance with notifications provided by electronic data processing organizations will be permitted to be conducted through methods leveraging smartphone applications which provide financial settlement services. This revision will apply to national taxes paid on or after 4 January 2022.

b. Expansion of requests and applications eligible to be filed through e-Tax

In concern to requests and applications which cannot currently be filed through e-Tax, the sending of image data prepared via scanning or other methods will be permitted in place of written request or application. Although this revision will apply to requests and applications filed on or after 1 April 2021, in practice the filing of requests or applications using the methods outlined above will be permitted even prior to the enforcement date.

c. Establishment of methods permitting the submission of statutory report via cloud services

Parties obligated to file statutory reports will, upon prior notification provided to the district director of a tax office, be permitted to submit statutory reports via methods which fulfill the following two conditions. This revision will apply to statutory reports submitted on or after 1 January 2022.

- The relevant statutory reports and total table data are recorded in a file stored in a cloud service which has been certified as meeting relevant criteria stipulated by the commissioner of the National Tax Agency
- The district director of the tax office is provided with access privileges enabling viewing and related acts to be conducted in relation to the data of the statutory reports and total table

d. Expansion of the scope of tax items eligible for the local tax universal payment system

In concern to the tax items eligible for the local tax universal payment system, measures will be established to expand the scope to include fixed asset tax, city planning tax, automobile tax and light vehicle tax, and to permit electronic payments through the eLTAX system to occur in relation thereto. These revisions will be applied to taxes levied in concern to 2023 and subsequent years.

e. Digitalization of tax amount notifications concerning the special collection of inhabitants' tax levied on individuals

Municipalities will, in concern to tax amount notifications concerning the special collection of taxes in concern to salary income (provided for the party obligated to conduct special collections and the person obligated to pay taxes) and upon the request of a specified party obligated to conduct special collections, be required to send said notifications electronically via eLTAX and the party obligated to conduct special collections.

Other

1. Revision of eco-car tax reduction measure of the automobile weight tax

From the perspective of encouraging the spread of highly fuel-efficient cars, the fuel economy standards of the eco-car tax reduction measure will be revised and the eco-car tax reduction measure (which reduces automobile weight tax) will be extended for two years, lasting until 30 April 2023.

2. Burden adjustment measure for fixed asset taxes on land

For FY2021 only, the tax basis of fixed asset taxes imposed on residential-use land, agricultural land, etc. will be pegged to the same tax basis as the previous fiscal year (FY2020), even if the value of land has increased. If the value of the land has decreased due to a drop in land prices, fixed asset taxes shall be imposed using the decreased value as the tax basis. Furthermore, application of the burden adjustment measure for land will be extended to FY2023.

3. Revision of the start date of the application of the ratio that is consistent with the taxable sales ratio (consumption tax)

If a party submits an application for approval by the last date of the taxable period in which said party elects to use a ratio that is consistent with the taxable sales ratio, and receives approval from the district director of the tax office no later than the date when one month has passed since the last date of said taxable period, then said party may commence the use of the ratio that is consistent with the taxable sales ratio to calculate its input tax credit for consumption tax starting from the taxable period that includes the submission date of said application for approval.

4. Revision of the scope of input tax credit requirements for gold ingot purchases (Consumption tax)

There are several types of personal identification documents concerning counter parties of taxable purchases that must be preserved in order to be able to receive input tax credits for the taxable purchases of gold or platinum ingots. Of these, the requirement to preserve copies of residence cards and copies of passports of persons who do not have addresses in Japan will be eliminated. This revision will apply to taxable purchases conducted by business operators on or after 1 October 2021.

5. Preservation of documents required for export tax exemptions (consumption tax)

If a party exports an item via postal mail as prescribed by Article 76, paragraph 1 of the Customs Act, and becomes eligible to apply for the export tax exemption for consumption taxes, then said party must preserve a copy of the postal item's acceptance slip and shipment slip issued by the Japan Post Co., Ltd. This revision will apply to asset transfers, etc. conducted on or after 1 October 2021.

6. IR-related tax rules

Discussions on the general framework of integrated resort (IR) related tax rules were conducted. While domestic residents will be required to pay income tax, non-residents will be exempt from paying income tax in order to ensure that Japanese casinos are internationally competitive. Furthermore, the treatment of consumption tax in relation to casino sales and customer point reward (cash-back) systems from a corporate income tax perspective will be clarified. Materialization of these tax rules will be conducted in the tax reforms for FY2022 or thereafter.

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