

Japan tax bulletin

Newsletter on important tax and business developments in Japan

February 2011

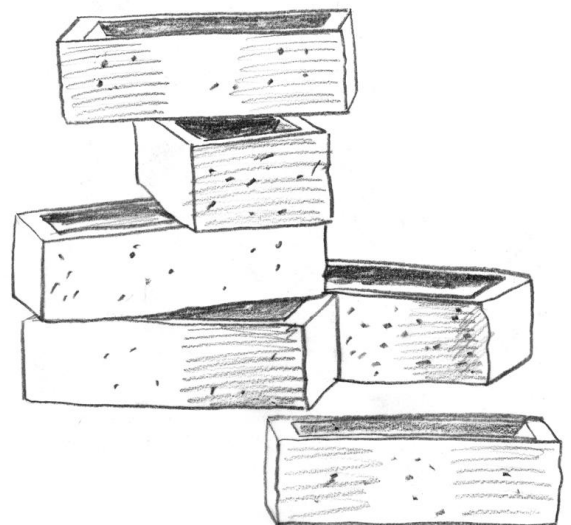
In this issue

New incentives for inbound investment into Japan

This edition of our newsletter discusses recent measures to encourage inbound investment into Japan through support for the development of Regional Headquarters and Research and Development sites in Japan, and a proposed reduction in corporation tax rates.

Proposals contained in the 2011 Tax Reform outlined tax incentives designed to encourage domestic and foreign corporations to establish these sites in Japan. In addition the headline rate of corporation tax will be reduced from 30% to 25.5%.

A new subsidy program has also been introduced to provide up to 1 billion Yen to eligible companies to support the establishment of such sites. This program is open for applications until 22 March 2011.



Inbound investment incentives

2011 Tax Reform proposals

The 2011 Tax Reform proposals outlined tax incentives for qualifying corporations to invest in specified areas of Japan and to establish Regional Headquarters and Research and Development (R&D) centres here. In addition a reduction to corporation tax rates was announced. The proposals will be debated and the tax laws in their final form will be promulgated in late March. A brief outline of the measures is given below.

Investment in designated areas

In order to promote investment into certain areas qualifying corporations engaged in specified types of business in the areas, which are yet to be designated, will be eligible for either of the following benefits:

1. A first year depreciation deduction of 50% of the cost of certain capital expenditure (25% for buildings) will be available from taxable income, or alternatively a tax credit can be taken for 15% of the cost (8% for buildings). The credit is capped at 20% of a corporation's tax liability with the balance able to be carried forward for one year;
2. If the above incentive is not taken, a 20% reduction in taxable income is available for companies incorporated and conducting business primarily in the designated area.

In order to qualify for one of the above incentives a corporation must be a blue tax return filer and be approved by an authorized local government. These requirements must be completed between the effective date of the tax law and 31 March 2014.

The depreciation regime described above will apply to expenditure incurred between the effective date of the tax law and 31 March 2014. The reduction in taxable income will apply for five years from the date the corporation is designated as qualifying.

Incentives for Regional Headquarters and Research and Development centres

Another measure contained in the proposals is designed to encourage foreign corporations to establish Regional Headquarters or R&D centres in Japan. Corporations will benefit from a 20% reduction to taxable income for five years from the date they are designated as qualifying. In the fiscal years that the incentive is taken, no tax credits for R&D costs will be available.

To qualify for this incentive a corporation needs to be a blue tax return filer and have its Headquarters or R&D Business plan approved by a Competent Minister. The period for approval runs from the effective date of the tax law to 31 March 2014.

Reduction in corporation tax rates

For fiscal years beginning on or after 1 April 2011 the headline corporation tax rate will be reduced from 30% to 25.5%. This will cause the effective tax rate for a company to be reduced from approximately 41% to approximately 36%.

For Small and Medium-sized Enterprises the special tax rate of 18% applicable to the first 8 million Yen of taxable income will be reduced to 15% for periods beginning between 1 April 2011 and 31 March 2014. For periods beginning on or after 1 April 2014 the rate will revert to the normal rate, which will also be reduced to 19% from 22%.

Subsidy Program for Projects Promoting Asian Site Location in Japan

In conjunction with the Tax Reform proposals, the government has announced that subsidies will be made available to private enterprises for projects that establish new Headquarters or R&D sites in Japan.

Eligibility requirements

In order to be eligible for the subsidy the project needs to meet the following criteria:

1. It should establish a new site as opposed to relocating or consolidating existing sites;
2. It must belong to a corporate body with group companies operating business in two or more countries.

The enterprise needs to be incorporated in Japan. However, foreign corporations with no corporate status in Japan may apply for the subsidy program. If successful they must have corporate status in Japan by the time of the first grant application.

Available subsidies

Enterprises deemed to be Small and Medium-Sized Enterprises (SMEs) under the program will be able to claim subsidies for up to half of the eligible costs, with non-SMEs able to claim up to one-third. Costs eligible for subsidy include survey and design costs, facility costs and rental charges and equipment

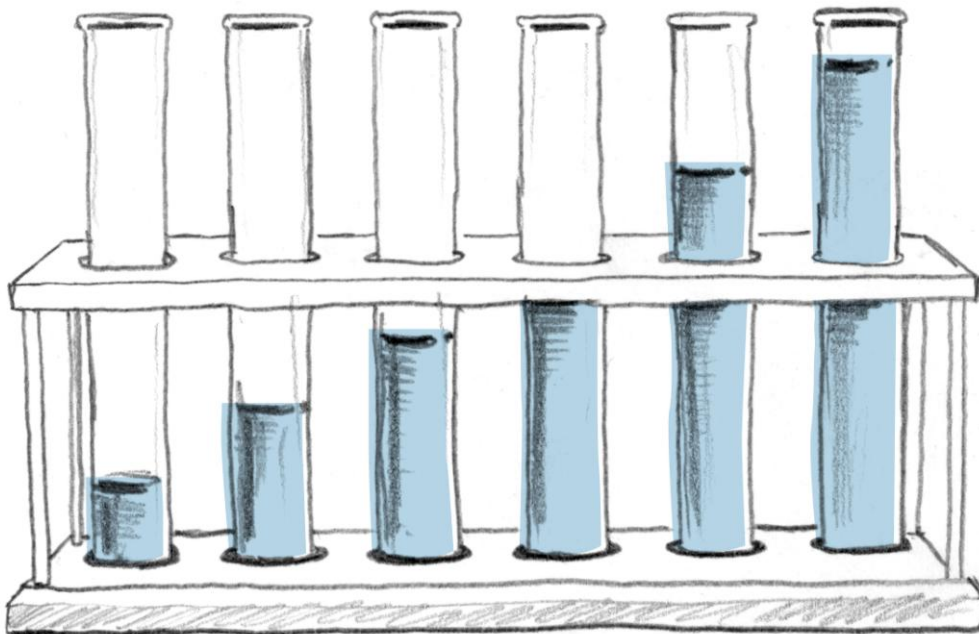
costs. The maximum subsidy available is 1 billion Yen.

Application

Applications for the subsidy program will be accepted by the Japan External Trade Organisation (JETRO) until 22 March 2011.

Summary

The tax reform proposals and subsidy program highlight the Japanese government's intention to increase the attractiveness of Japan as a location for investment in the region. The reduction in corporation tax rates together with the tax incentives and generous subsidies available will encourage both domestic and foreign corporations to establish new sites and invest in Japan, which in turn will help to stimulate the Japanese economy.



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