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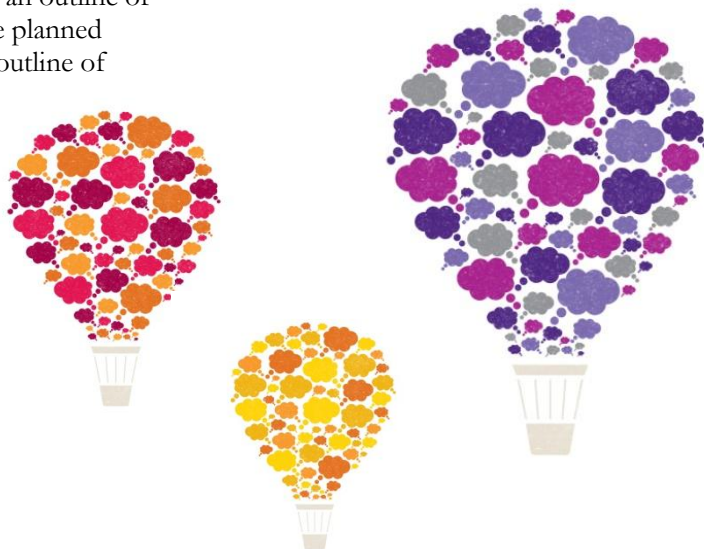
Japan tax bulletin

Newsletter on important tax and business developments in Japan
September 2013

In this issue

**Consumption Tax rate rise
transitional measures and recent
taxation agreements**

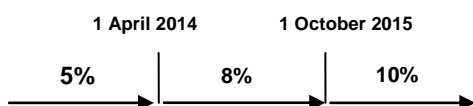
This edition of our newsletter contains an outline of the transitional measures relating to the planned consumption tax rate rise and a broad outline of recent taxation agreements.



Consumption tax

New rates

In August 2012 a Bill was passed increasing the consumption tax rate to 10% in two steps as shown below:



Transitional measures

Since the Bill was introduced, amendments have been made to cover longer term transactions where the contract, payment or service period may straddle the initial rate increase.

Sales via telephone and internet

In cases where goods are delivered before 1 April 2014 the 5% rate applies. For goods delivered on or after 1 April 2014, the 5% only applies if the customer offered to purchase the items more than 6 months prior to 1 April 2014.

Supply of utilities (gas, electricity, water, telecommunications services etc.)

If the supply is made before 1 April 2014 and the charge is fixed within one month of that date, then the 5% rate will apply.

Book subscriptions

If the subscription is paid before 1 April 2014 the 5% rate applies.

Lease contracts

The 5% rate only applies for contracts entered into between 1 October 1996 and 30 September 2013 where the lease starts before, and continues on or after 1 April 2014. In addition the lease period and fees must be defined and either:

a) there is no provision allowing the lessor to change the fee amount, or

b) the lease fees must be more than 90% of the asset cost and there is no provision for either party to cancel the contract at any time.

Advanced payments of transportation costs and admission fees

For items such as annual commutation passes and theatre or museum admission fees, the 5% rate applies if the payment is made before 1 April 2014, regardless of when the service provision occurs.

Construction/manufacturing contracts where lump sum payment is made upon completion

For contracts signed between 1 October 1996 and 30 September 2013 where the asset is transferred on or after 1 April 2014 the 5% rate applies if the contract is for construction/manufacturing or of a similar nature.

Construction/manufacturing contracts where payments are made in stages

For contracts signed between 1 October 2013 and 31 March 2014, but where delivery is made on or after 1 April 2014, the 5% rate is applied to a portion of the consideration as calculated below:

$$\begin{aligned} & \text{Amount subject to 5\% rate} \\ = & \text{Total consideration} \times \frac{\text{Costs incurred from start of project to 31 March 2014}}{\text{Total estimate costs as of 31 March 2014}} \end{aligned}$$

Installment sales

If the contract is signed before 1 April 2014, payments made on or after 1 April 2014 are subject to the 5% rate.



Recent taxation agreements

This year Japan has once again been active in agreeing new taxation agreements and updating existing ones.

Tax treaties

Portugal

A new treaty with Portugal, as described in our May 2012 bulletin has entered into force and will apply to taxes from 1 January 2014. The headline rates are as below:

Income type		Tax rate
Dividends	At least 10% shareholding	5%
	Other	10%
Interest		10%/5% ¹ /0% ²
Royalties		5%

Kuwait

The treaty with Kuwait, signed in 2012, has entered into force and will apply to taxes from 1 January 2014. The headline rates are as below:

Income type		Tax rate
Dividends	At least 10% shareholding	5%
	Other	10%
Interest		10% ²
Royalties		10%

New Zealand

A new treaty to replace the existing one with New Zealand has been signed and will enter into force in

October. It will apply to taxes from 1 January 2014. The headline rates are below:

Income type		Tax rate
Dividends	At least 10% shareholding	0%
	Other	15%
Interest		10%/0% ²
Royalties		5%

The previous treaty did not contain provisions covering interest and royalties and so in order to prevent tax avoidance schemes from taking advantage of the new reduced rates, a limitation of benefits article has been introduced.

An arbitration procedure has been provided for in cases where the competent tax authorities fail to reach agreement on a dispute within two years.

In common with recent treaties that Japan has signed, there are also provisions allowing Japan to impose tax at source on income and gains derived from a sleeping partnership (Tokumei Kumiai).

United Arab Emirates

Japan has signed a new treaty with the UAE. Although it has not yet entered into force, the headline rates are as below:

Income type		Tax rate
Dividends	At least 10% shareholding	5%
	Other	10%
Interest		10%/0% ²
Royalties		10%

¹ 5% for interest paid to banks

² 0% for interest paid to government bodies and central banks

In common with recent treaties that Japan has signed, there are also provisions allowing Japan to impose tax at source on income and gains derived from a sleeping partnership (Tokumei Kumiai).

United Kingdom

In addition to the above agreements Japan and the UK have reached an agreement in principle to amend the tax treaty between them which has been in place since 2006.

Tax Information Exchange Agreements

Tax information agreements have entered into force with Liechtenstein, Jersey, Guernsey and Samoa.

Agreements in principle have also been reached with the British Virgin Islands and Macao.

Summary

Japan's actions in agreeing new tax treaties will help multinational companies operating abroad.

In addition the Tax Information Exchange Agreements agreed with low tax jurisdictions will ensure greater transparency and help with the sharing of taxpayer information.



Contact us for any enquiry on our services;

Yoichi Ishizuka

Managing Partner, Tax Services

Tel: 03-5770-8870 email: yoichi.ishizuka@jp.gt.com

Toshiya Kimura

Director, Transfer Pricing Advisory

Tel: 03-5770-8829 email: toshiya.kimura@jp.gt.com

Hideharu Tanaka

Partner, International Tax Services

Tel: 03-5770-8871 email: hideharu.tanaka@jp.gt.com

Kumiko Miyajima

Partner, International Tax Services

Tel: 03-5770-8914 email: kumiko.miyajima@jp.gt.com

Yuka Iizumi

Manager, International Tax Services

Tel: 03-5770-8892 email: yuka.iizumi@jp.gt.com

Tosh Kamii

Manager, Corporate Services

Tel: 03-5770-8935 email: toshiya.kamii@jp.gt.com

Adrian Castelino-Prabhu

Assistant Manager, International Tax Services

Tel: 03-5770-8882 email: adrian.castelino@jp.gt.com

Disclaimer

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グラントソントン太陽ASG税理士法人
Grant Thornton Taiyo ASG Tax Corporation

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