

Japan Tax Bulletin

June 2015 issue

Tax Incentives in Japan

This issue of our Japan Tax Bulletin discusses some of the new tax incentives that have been introduced by the Abe administration as part of its growth strategy.

1. *Tax credit for Job Creation*

For business years beginning from April 1, 2011 through March 31, 2016, a blue tax return taxpayer¹ who satisfies the following conditions qualifies for a tax credit of JPY 400,000 x the increase in number of employees. The credit is capped at 10% of the corporation tax liability (20% for an SME).

- The number of employees at the end of a fiscal year shows an increase of 5 or more employees (2 or more for an SME²) over the number of employees at the end of the previous fiscal year, and the employment increase ratio is 10% or more.

The employment increase ratio is the number of employees at the end of the year of application / the number of employees at the end of the prior year.

- There are no employees whose employment was terminated by the employer in the fiscal year or in the previous fiscal year.
- The total salary amount paid to employees in the fiscal year is equal to the “comparable salary amount” or more. The “comparable salary amount” is the total salary paid in the prior year + (salary amount in the

prior year x employment increase ratio x 10%).

- An employment plan is filed with the labor office within 2 months after the beginning of the fiscal year.
- Confirmation that the employment plan has been achieved is obtained from the labor office within 2 months after the end of the fiscal year

Where tax credit for salary increase is utilized, tax credit for job creation cannot be utilized.

2. *Tax credit for salary increase*

For business years beginning from April 1, 2013 through March 31, 2018, a blue tax return taxpayer who satisfies the following conditions qualifies for a tax credit equal to 10% of the increase in salary paid, capped at 10% of its corporation tax liability (20% for an SME).

- In comparison with the “base period”, the total salary paid in the fiscal year when the tax credit is applied for increases by 2% (for years beginning before April 1, 2015), 3% (for years beginning from April 1, 2015 through March 31, 2016), or 5% (for years beginning from April 1, 2016 through March 31, 2018).

The base period is the fiscal year preceding the first fiscal year beginning on or after April 1, 2013. Salaries need to be tax deductible in computing taxable income.³

- The total salary paid in the fiscal year is not lower than that paid in the previous year.
- The average monthly salary per employee is greater than during the previous year for employees that have worked continuously for the

¹ A blue tax return taxpayer is required to maintain books and records at the address of head office.

² An SME is a corporation whose stated capital is JPY 100M or less, except where 50% or more of its outstanding shares or share capital is owned by a large corporation or 2/3 or more of its outstanding shares or share capital is owned by two or more large corporations. A large corporation is corporation whose stated capital is more than JPY 100M or a corporation without stated capital that ordinarily employs 1,000 or more employees.

³ Certain compensation to directors or officers is non-deductible when computing taxable income.

employer since that year.

Where tax credit for job creation is utilized, tax credit for salary increase cannot be utilized.

3. *Tax incentives for investments in equipment that enhances productivity*

A blue tax return taxpayer that acquires qualifying equipment from January 20, 2014 through March 31, 2017 qualifies for either special depreciation or a tax credit. There are two types of qualifying equipment. For assets acquired from January 20, 2014 to March 31, 2016, a taxpayer can elect to take one-off depreciation or a tax credit of 5% of the acquisition cost (3% for buildings) capped at 20% of its corporation tax liability. For assets acquired from April 1, 2016 to March 31, 2017, a taxpayer can elect for 50% special depreciation (25% for buildings) or a tax credit of 4% of the acquisition cost (2% for buildings) capped at 20% of the corporation tax liability.

3.1. *Type A : Advanced facilities*

Qualifying advanced facilities need to be most advanced model and include assets in the Appendix.:

Qualifying assets need to improve productivity by at least 1%. A certificate of productivity improvement is issued by manufacturer's associations designated by the government. Second-hand assets, leased assets, assets used overseas, assets used in operations which do not add value directly do not qualify.

3.2. *Type B: Facilities used for improving production line or operations*

In order to qualify, a taxpayer needs to submit an investment plan to the Ministry of Economy, Trade and Industry for approval. The plan needs to be certified by a CPA or licensed tax ac-

countant. Any machinery, tools, equipment and fixtures, building, building and accompanying facilities, structure and software qualifies if the annual return on investment (ROI) on the equipment shown in the investment plan is at least 15% (5% for SMEs). The annual return on investment equals the increase in operating profits and depreciation / total acquisition costs of assets in a business year. The increase in operating profits and depreciation is averaged over the 3 business years following acquisition of the assets.

4. *R&D tax credit*

A corporate taxpayer who files a blue tax return qualifies for a tax credit of 8% to 10% of qualifying R&D expenses capped at 20% of the corporation tax liability.

Qualifying R&D expenses are those incurred in experimental and research work intended to develop new or improved products, designs and production techniques.

The amount of credit depends on the R&D expense ratio, defined as:

Deductible R&D expenses in a fiscal year / Average sales for the current year and 3 prior years.

The available credit is 10% where the R&D expense ratio is 10% or more, and 8%+ (20% x R&D expense ratio) where the R&D expense ratio is less than 10%.

Any unused credit can be carried forward for one year.

Appendix

	Details	Acquisition costs	Restriction
Machinery	All kinds	JPY 1.6M or more/unit	
Tools	Rollers	(1)JPY 1.2M or more1unit or (2) JPY 0.3M or more/unit and JPY 1.2M in total in a business year	
Equipment and fixtures	Testing or measurement equipment, display cases with freezing or refrigerating equipment, air conditioning equipment, refrigerator/washing machine or other similar electric/gas apparatus, cold storage units,	(1)JPY 1.2M or more1unit or (2) JPY 0.3M or more/unit and JPY 1.2M in total in a business year	
Equipment and fixtures	Servers		Only for SMEs
Building	Heat insulation, window insulation	JPY 1.2M or more/unit	
Building and accompanying facilities	Electrical facilities (including lighting but excluding battery storage systems), air conditioning, ventilation or boiler facilities, elevators, awnings, UV reduction film.	JPY 0.6M or more/unit and JPY 1.2M in total in a business year	
Software	Software that collects and analyzes information on the operation of facilities and controls them	JPY 0.3M or more/unit and JPY 0.7M in total in a business year	Only for SMEs