

(Provisional translation)

New Japanese Bond Income Tax Exemption Scheme (J-BIEM)

Office of Financial Taxation
Financial Services Agency

Outline of New Japanese Bond Income Tax Exemption Scheme (J-BIEM)

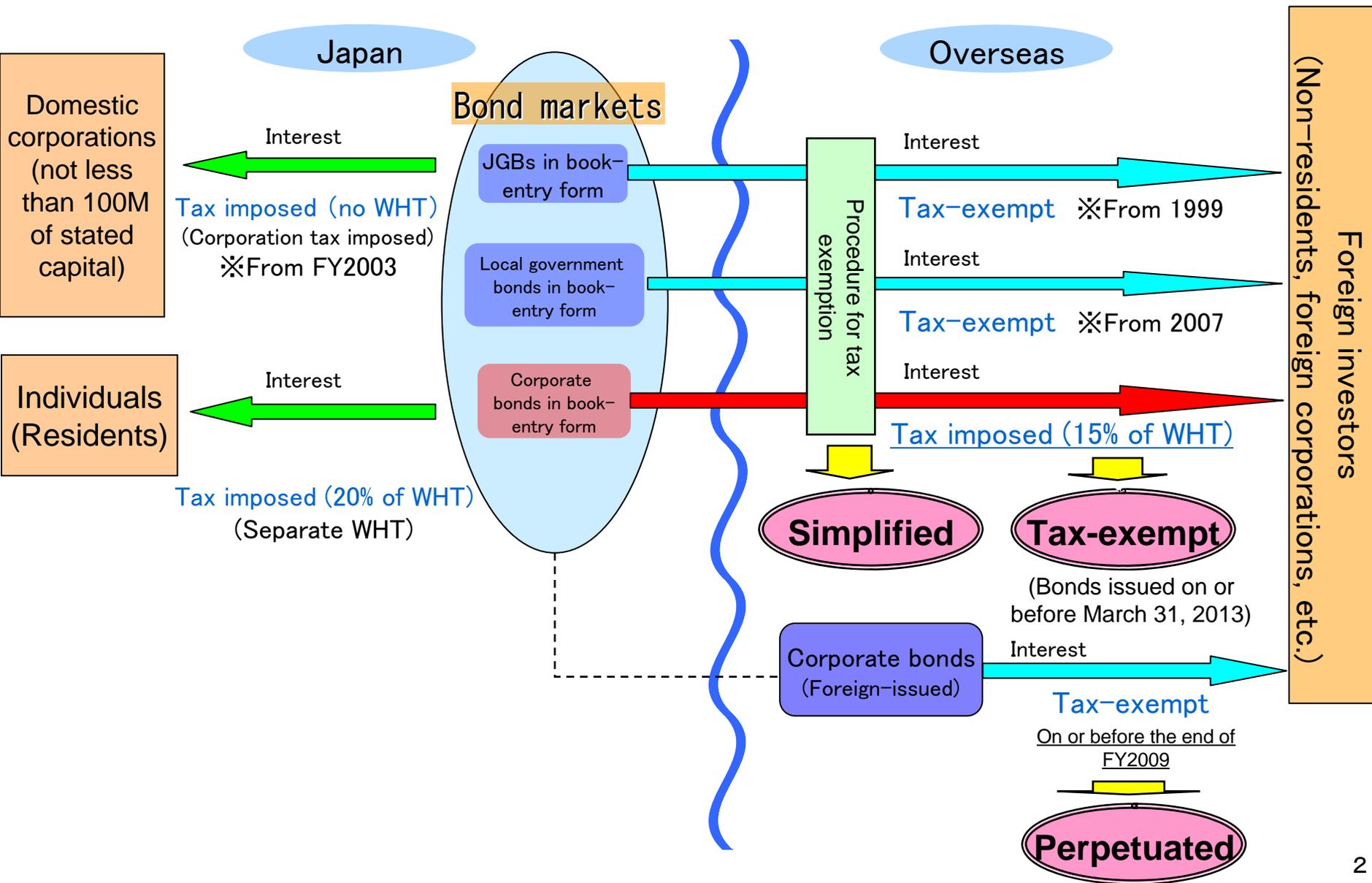
<Outline of the system before the 2010 Tax Reform>

- Interest on JGBs and local government bonds in book-entry form received by non-residents, etc. was exempt from tax, subject to certain procedural requirements. However, interest on corporate bonds, etc. in book-entry form received by non-residents, etc. was subject to withholding tax at the rate of 15%.
- The procedure for tax exemption was troublesome in practice. For example, written applications for tax exemption were filed to the head of the local tax authority for each issuer of JGBs and local government bonds in book-entry form to which the tax exemption scheme was expected to apply.

<Outline of the 2010 Tax Reform>

- Widening of the scope of non-taxable bonds:
Interest and profits from redemption of corporate bonds, etc. in book-entry form (issued on or before March 31, 2013) received by non-residents, etc. shall be exempt from tax, subject to certain procedural requirements. However, interest and profits from redemption of profit-linked bonds among corporate bonds, etc. in book-entry form, and interest and profits from redemption of corporate bonds, etc. in book-entry form received by entities in a special relationship with the issuer are outside the scope of the tax exemption scheme.
- Simplification of the procedure for tax exemption:
The procedure for tax exemption shall be largely simplified.
- Widening of the scope of non-taxable entities:
The scope of non-taxable entities (qualified foreign securities investment trusts) shall be widened.

Outline of Tax Reform Concerning Bond Interest



Widening of the Scope of Non-taxable Bonds

Interest and profits from redemption of corporate bonds, etc. in book-entry form (issued on or before March 31, 2013) received by non-residents, etc. shall be generally exempt from tax, subject to certain procedural requirements, in addition to JGBs and local government bonds in book-entry form.

- Corporate bonds, etc. in book-entry form :

Corporate bonds, etc. in book-entry form that newly become non-taxable bonds include corporate bonds, FILP agency bonds, J-REIT bonds, TMK bonds, samurai bonds, CBs (convertible bonds) and CPs (commercial papers), etc. (issued on or before March 31, 2013) that are dealt under the book-entry system.

- Profits from redemption :

Profits from redemption that are granted tax exemption shall be the difference between the amount redeemed (the redemption price) and the purchase price.

- Exceptions :

Interest and profits from redemption of profit-linked bonds among corporate bonds, etc. in book-entry form and interest and profits from redemption of corporate bonds, etc. in book-entry form received by entities in a special relationship with the issuer are outside the scope of the tax exemption scheme.

- Applicable Timing :

This tax exemption rule shall apply to interest on corporate bonds, etc. in book-entry form whose coupon calculation period starts on or after June 1, 2010 and profits from redemption of corporate bonds, etc. in book-entry form acquired on or after June 1, 2010. This tax exemption rule shall apply to profits from redemption of CPs issued on or after June 1, 2010.

Cases Outside the Scope of the Tax Exemption Scheme

Profit-linked bonds

- Interest and profits from redemption of profit-linked bonds among corporate bonds, etc. in book-entry form are outside the scope of the tax exemption scheme.
- Profit-linked bonds: Corporate bonds, etc. in book-entry form for which the amount of interest is calculated based on an index prescribed by cabinet order in respect to the issuer, etc. (the issuer or entities in a special relationship with such issuer) of such corporate bonds, etc. in book-entry form.
- Index prescribed by cabinet order:
 1. The amount of profits, sales, income or other gains in respect to businesses of the issuer, etc. of corporate bonds, etc. in book-entry form.
 2. The amount of assets held by the issuer, etc. of corporate bonds, etc. in book-entry form
 3. The amount of dividends of surplus, dividends of profits, distribution of surplus or other amount similar to those paid by the issuer, etc. of corporate bonds, etc. in book-entry form.

Entities in a special relationship

- Interest and profits from redemption of corporate bonds, etc. in book-entry form received by entities in a special relationship prescribed by cabinet order with the issuer are outside the scope of the tax exemption scheme.
- Entities in a special relationship prescribed by cabinet order:
 1. In cases where one person (either the issuer or the person other than the issuer) directly or indirectly controls the other person, such person other than the issuer.
 2. In cases where the same person directly or indirectly controls both the issuer and the person other than the issuer, such person other than the issuer.
- Direct or indirect control: cases where one person holds more than 50% of the number of shares, etc., voting rights or members of the other company (down to the grand-grandchild company).

Simplification of the Procedure for Tax Exemption

The procedure for tax exemption shall be simplified as follows.

- Written applications for tax exemption:

Non-residents shall file written applications for tax exemption to the head of the local tax authority for the relevant sub-custodian, not to the head of the local tax authority for each issuer of bonds to which the tax exemption scheme is expected to apply.

(Note) Statements of the holding period, which were required to be prepared in order for non-residents, etc. to get the benefits of the tax exemption scheme, shall be abolished if certain procedural requirements are satisfied.

- Procedure for approving qualified foreign intermediaries (QFIs):

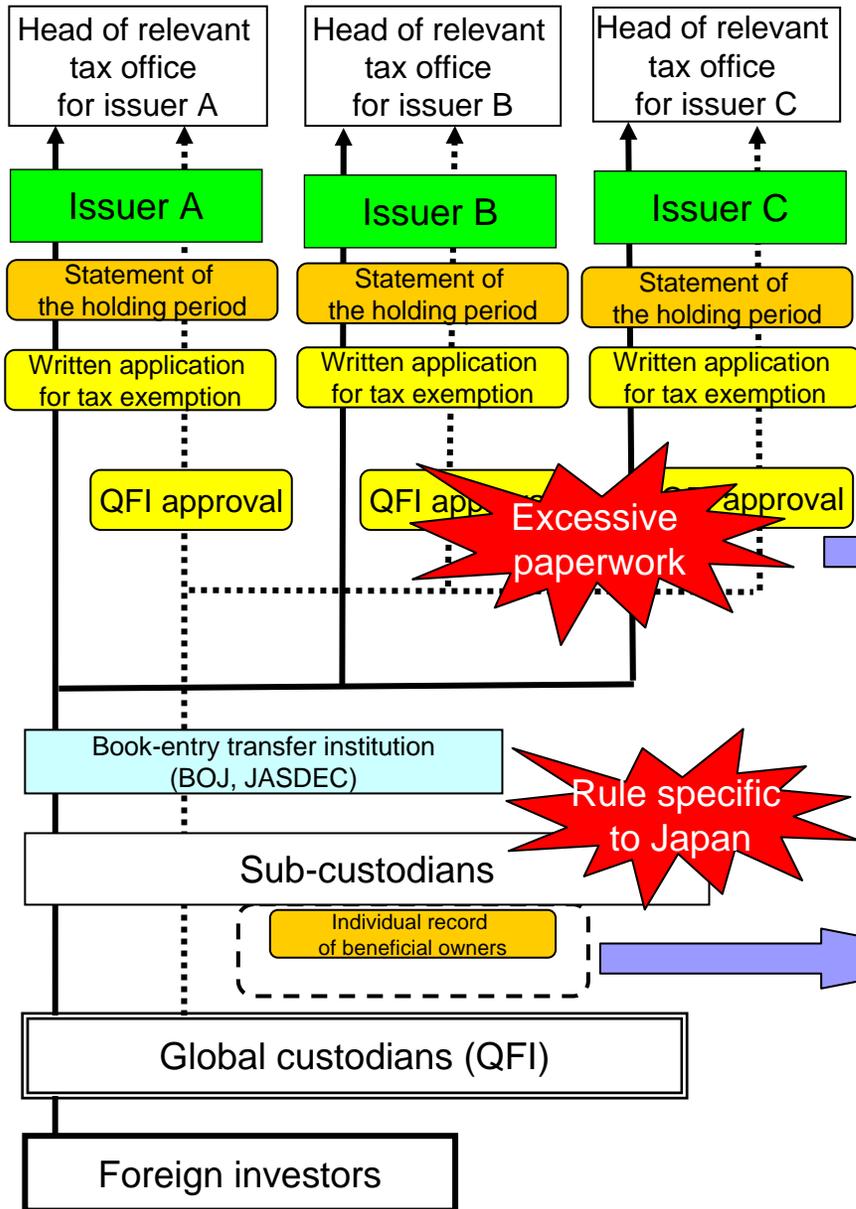
Global custodians shall file applications for approval as QFIs to the Commissioner of the National Tax Agency, not to the head of the local tax authority for each issuer of bonds in connection with which such global custodians are expected to be QFIs.

(Note) In order for non-residents, etc. to get the benefits of the tax exemption scheme, they generally need to purchase bonds in book-entry form through QFIs (global custodians approved by the Japanese tax authority).

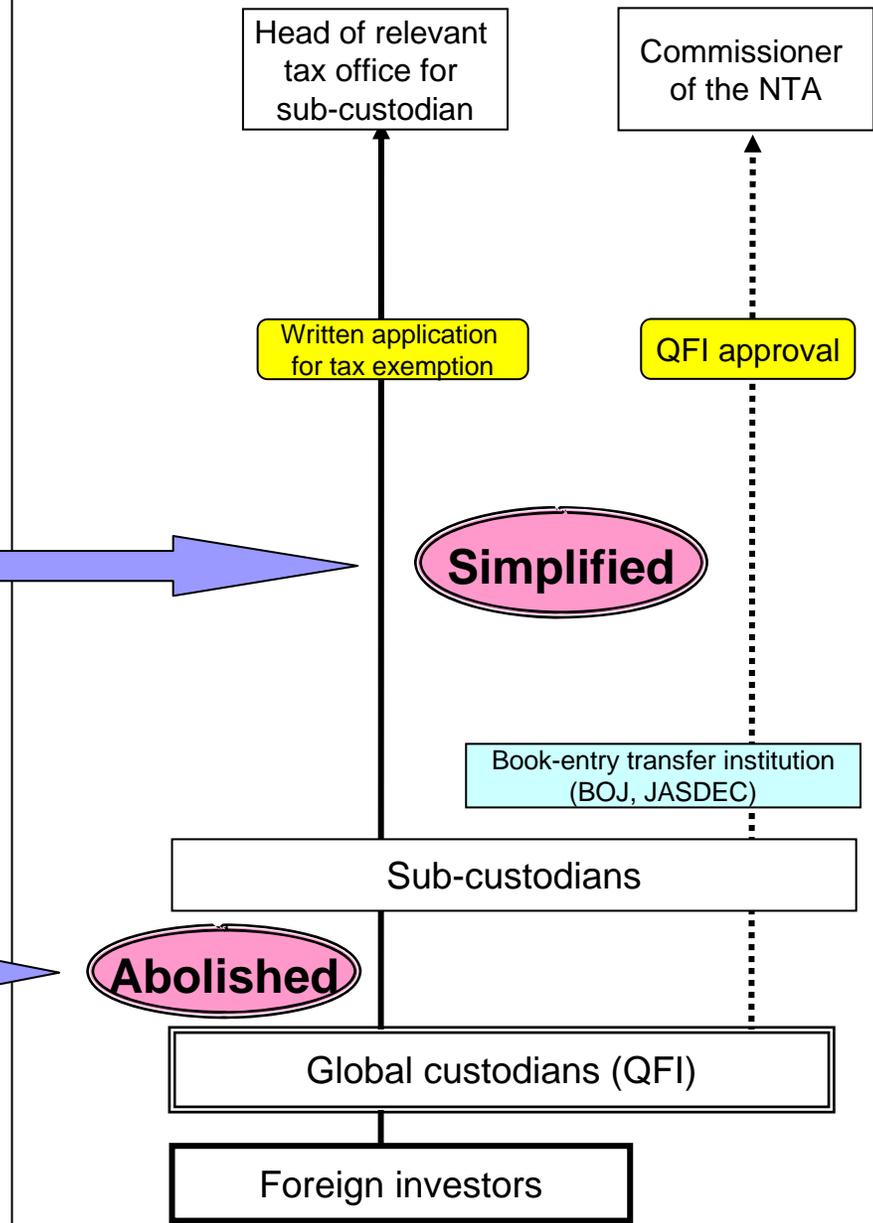
- Abolishment of individual records of beneficial owners :

Individual records of beneficial owners, which are records of the names and addresses, etc. of non-residents getting the benefits of the tax exemption scheme and currently prepared by sub-custodians, shall be abolished if certain procedural requirements are satisfied.

Complicated current system



Simplified new system



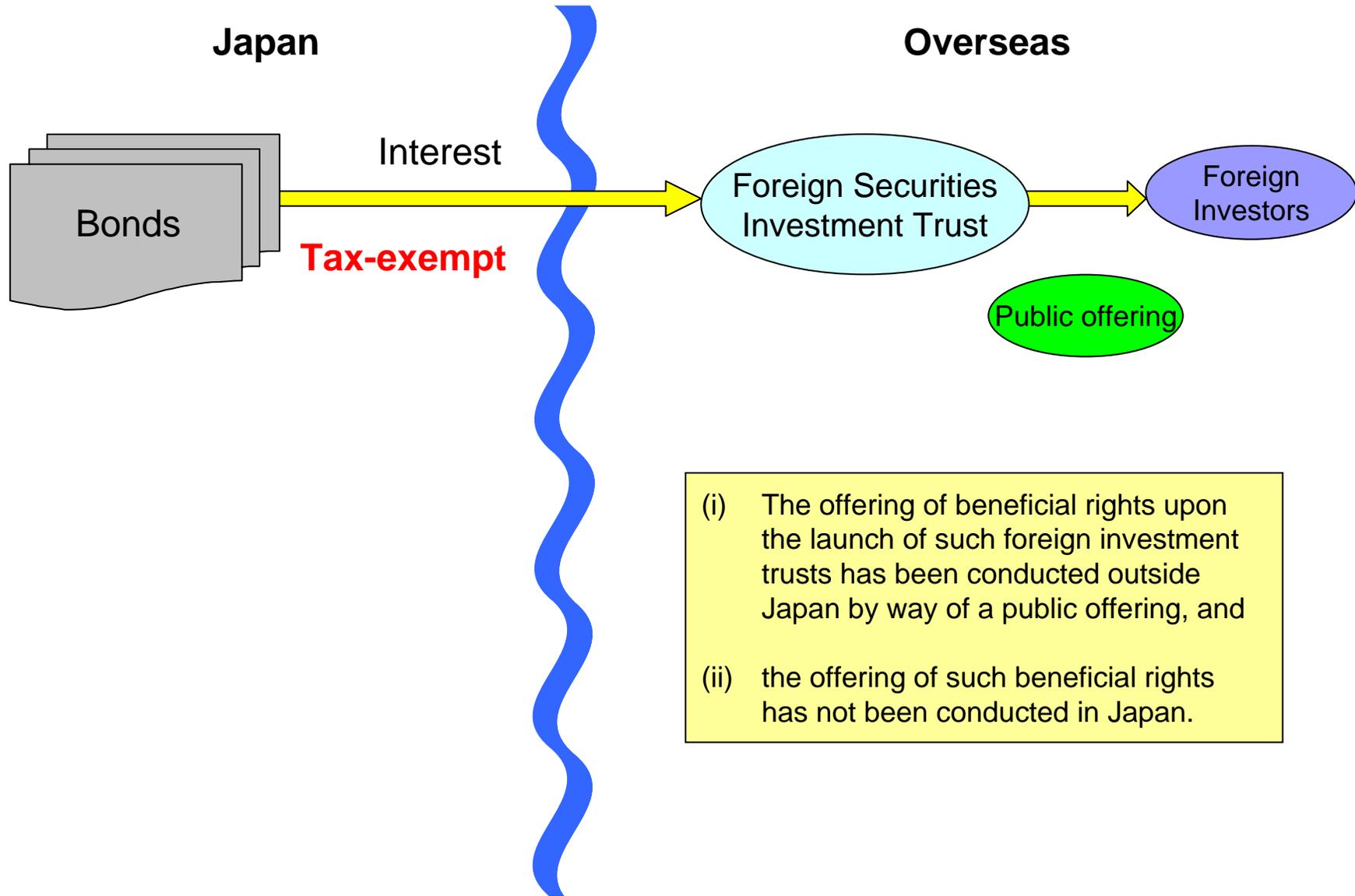
Widening of the Scope of Non-taxable Entities

Non-residents or foreign corporations may generally get the benefits of the tax exemption scheme, subject to certain procedural requirements. However, in cases where non-residents or foreign corporations are trustees of foreign investment trusts, interest on bonds in book-entry form included in the trust properties of such foreign investment trusts shall be exempt from tax only if such foreign investment trusts are qualified foreign securities investment trusts.

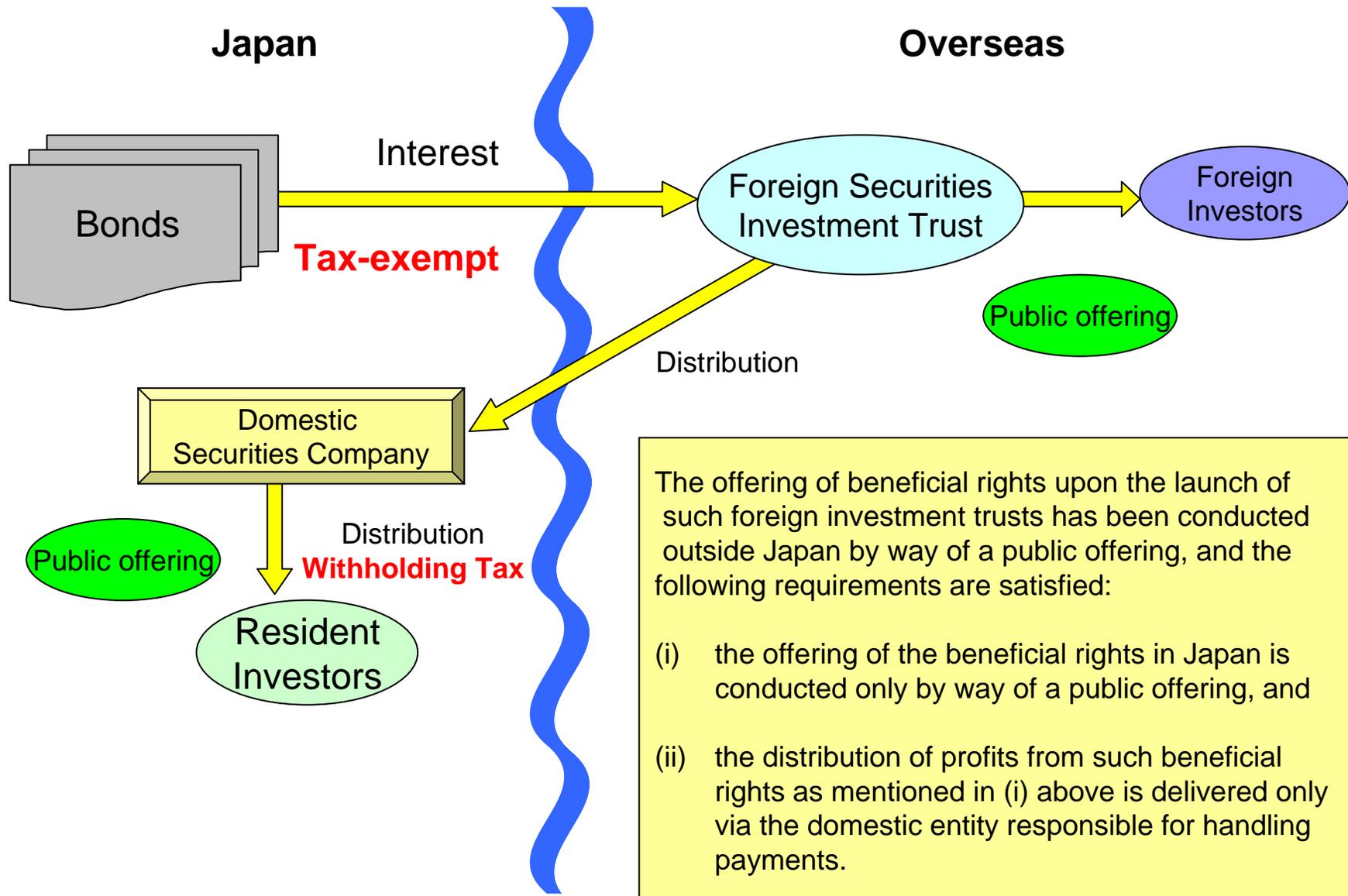
- Before the 2010 Tax Reform, qualified foreign securities investment trusts were limited to foreign investment trusts (securities investment trusts or bonds, etc. investment trusts) satisfying both of the following requirements:
 - (i) the offering of beneficial rights upon the launch of such foreign investment trusts has been conducted outside Japan by way of a public offering, and
 - (ii) the offering of such beneficial rights has not been conducted in Japan.

- After the 2010 Tax Reform, qualified foreign securities investment trusts shall include the following foreign investment trusts (securities investment trusts or bonds, etc. investment trusts).
 1. The offering of beneficial rights upon the launch of such foreign investment trusts has been conducted outside Japan by way of a public offering, and the following requirements are satisfied:
 - (i) the offering of the beneficial rights in Japan is conducted only by way of a public offering, and
 - (ii) the distribution of profits from such beneficial rights as mentioned in (i) above is delivered only via the domestic entity responsible for handling payments.
 2. The beneficial rights offered upon the launch of such foreign investment trusts have been acquired only as the trust properties of the other qualified foreign securities investment trusts.

Qualified Foreign Securities Investment Trusts Before the 2010 Tax Reform



Widening of the Scope of Qualified Foreign Securities Investment Trusts (1)



Widening of the Scope of Qualified Foreign Securities Investment Trusts (2)

