Tax Reform in FY 2015

— Key FSA-related Items in the Outline for the FY 2015 Tax Reform —

June 2015

Financial Services Agency

1. Supporting asset formation for households and supplying the growth capital

♦ Enhancing the NISA (tax-exempt individual investment accounts) scheme and improving its convenience

What is NISA?

- NISA (Nippon Individual Savings Account) gives individual investors (20 years old and over) a tax exemption on dividends and capital gains derived from small investment (up to 1 million yen per year) in listed shares and stock investment funds.
- By the end of 2014, the number of NISA accounts reached 8.25 million, and the total amount subscribed reached about 3 trillion yen.

[Please read p. 7-8 for more information.]

Overview:

① Introduction of "Junior NISA"

- Introducing "Junior NISA" to enable minors (less than 20 years old) to open a specially-designed NISA account with an annual investment limit of 800,000 yen

② Raising the annual upper limit on investments of NISA accounts

- Raising the annual investment limit from 1 million yen at present to 1.2 million yen

③ Improving NISA's convenience

· Simplifying procedures for opening a NISA account

- Discussions will continue on simplifying account opening procedures by using "My Number*", with a view to utilizing it for NISA accounts opened in 2018 and beyond.

· Speeding up procedures for opening a NISA account

*"My Number" is a single individual number given to each and every person holding a resident record who resides in a municipality.

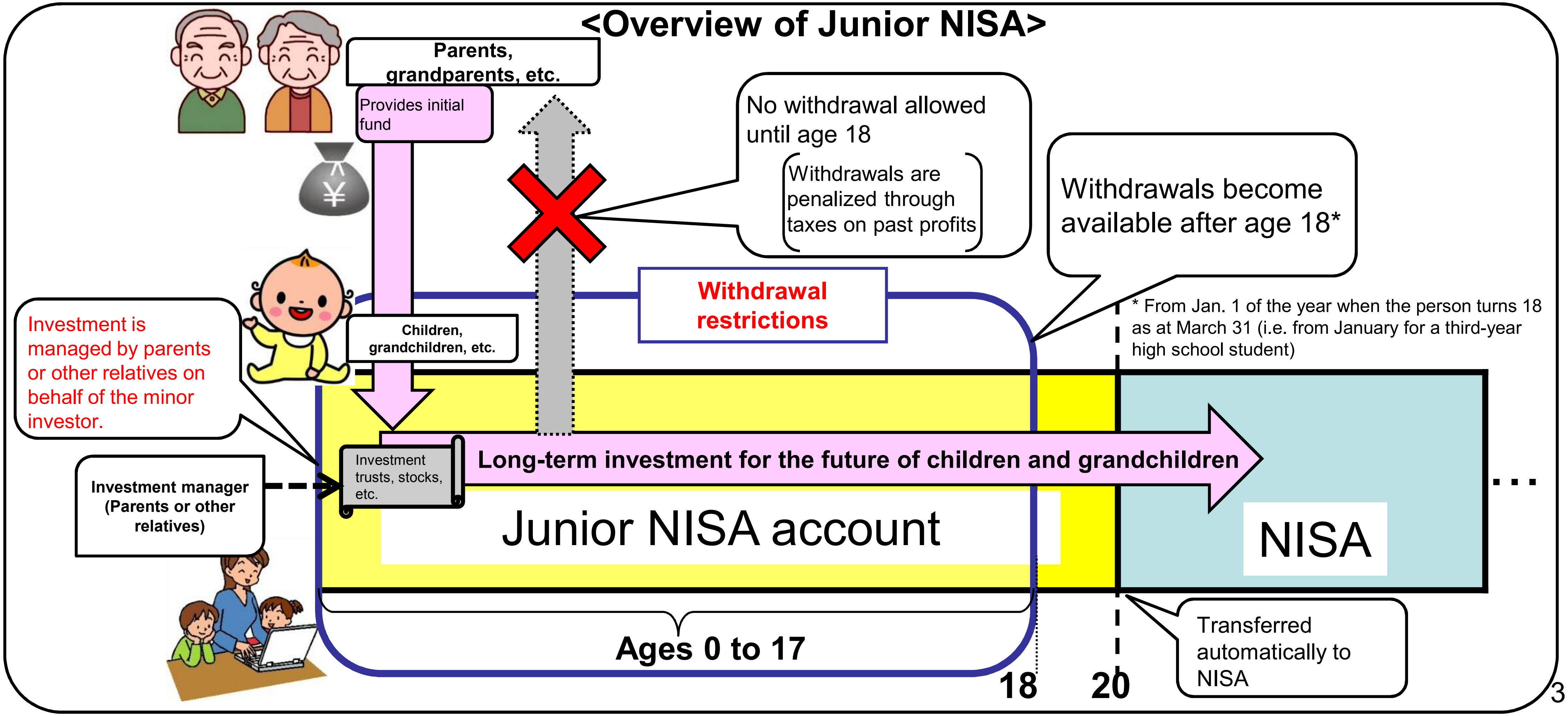
♦ Introduction of "Junior NISA" ①

Issues: Currently NISA is used mainly by experienced investors who are middle-aged or elderly. The scheme needs to support broaden range of investors, especially needs to encourage younger generations to invest in stocks or funds.

Overview: Introduction of "Junior NISA"

- Introducing a “Junior NISA” to enable minors less than 20 years old to open a specially-designed NISA account

<Overview of Junior NISA>



♦ Introduction of "Junior NISA" ②

Goal of scheme:

To support broader range of investors to include younger generations, and to achieve the dual goals of supporting stable asset formation for households and expanding the supply of the growth capital

Expected impacts: ① Expansion of the range of investors to include younger generations

② Channeling enormous financial assets concentrated among the elderly into the growth capital

③ Growth in long-term investment

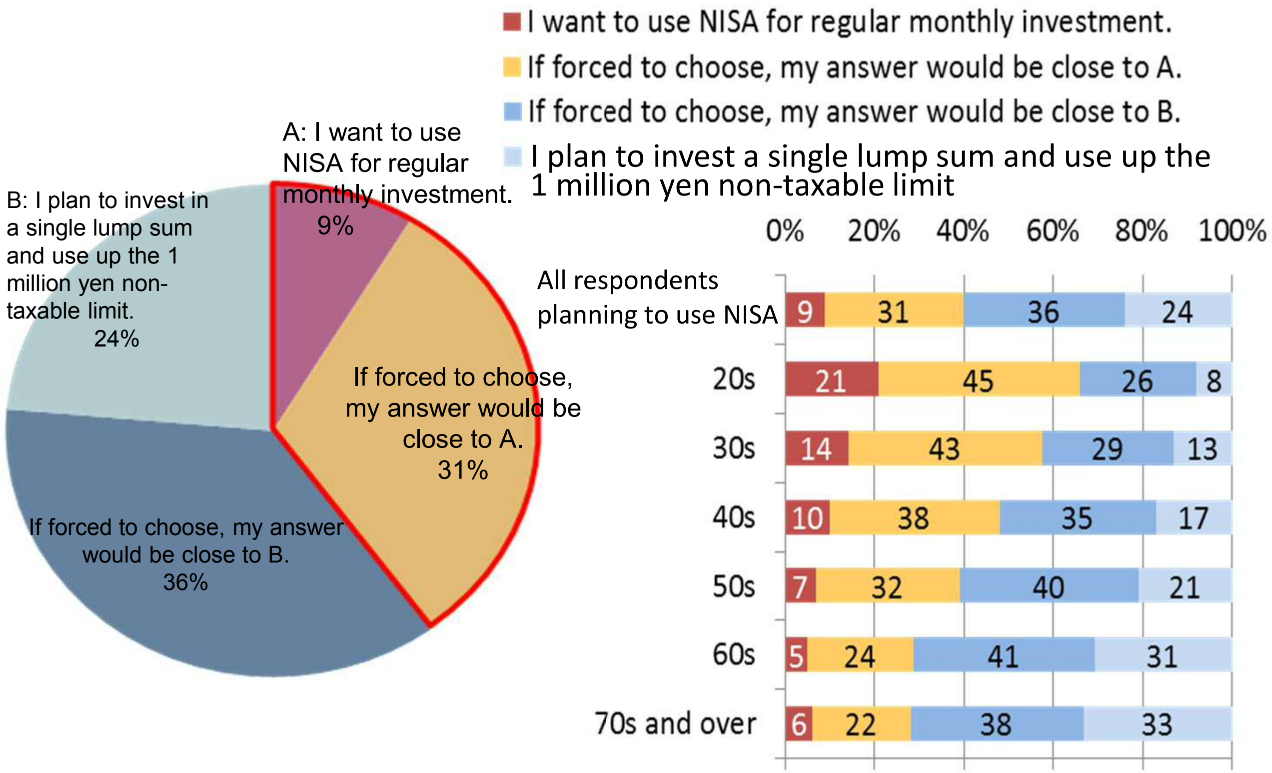
Item	Outline
Eligible persons	Residents of Japan less than 20 years old, etc.
Upper limit on annual investment	800,000 yen
Assets eligible for tax exemption	Listed stocks, publicly-offered stock investment funds, etc. (* Same as NISA)
Investment period	Between April 2016 and the end of December 2023 (*Timing of expiration is the same as that of NISA.) * Persons who open accounts before 2023 can use them tax-free until reaching the age of 20.
Tax-exempt period	Maximum five years from the initial year of investment (* Same as NISA)
How to open an account	“My Number” is required to be submitted when applying to open an account (no certificate of residence required).
Management of investment	· In principle, investment is managed by parents or other relatives on behalf of the minor investor. · Withdrawal is restricted until the holder turns 18 years of age. * Tax-exempt withdrawal is allowed in cases of emergency such as natural disasters.

♦ Raising the upper limit on annual investment of NISA accounts

Overview: Raising the upper limit on annual investment

Raising the annual investment limit from 1 million yen at present to 1.2 million yen

○ About 40% of those surveyed wanted to use NISA for regular monthly investment; this trend is more prominent among younger generations.



Source: "Fifth Survey on NISA" in February 2014 by Nomura Asset Management Co.
The survey was conducted nationwide on 40,000 male and female individuals aged 20 or older.

Reference:

"Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc."

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Points of Attention Regarding Solicitation of Transactions That Use Tax Exemption for Small-Amount Investments (excerpt)

(ii) Provision of Financial Instruments in Ways That Take into Consideration the Design and Purpose of the System

Whether the operator takes into account the purpose of NISA, which is to encourage **asset building in the medium- to long-term by households, and provides financial instruments, etc. to NISA-using customers in ways that reflect NISA's design and purposes, for example by providing a scheduled fixed-amount investment service in which the effect of time-diversified investment can be obtained by dividing investments into portions executed at specific intervals....**

♦ Improving NISA's convenience of use

Current status and issues:

○ The current NISA scheme has some inconvenience for users:

· requiring the submission of a copy of the resident certificate when opening an account

· taking too long for the period between the submission of the application until the account is opened

○ These issues mean it is necessary to improve convenience and simplify the application process of the scheme in order to popularize it and make it well-established.

Overview:

○ Simplifying procedures for opening a NISA account
Discussions will continue on simplifying the procedure to open an NISA account by using "My Number," with a view to utilizing it for applications in 2018 and beyond.

○ Speeding up the procedure for opening a NISA account
Implementing measures to speed up the procedure for opening NISA accounts at the tax authorities

Overview of the current NISA system (1)

NISA (Nippon Individual Savings Account) gives individual investors a tax exemption on dividends and capital gains derived from listed shares and investment trusts.

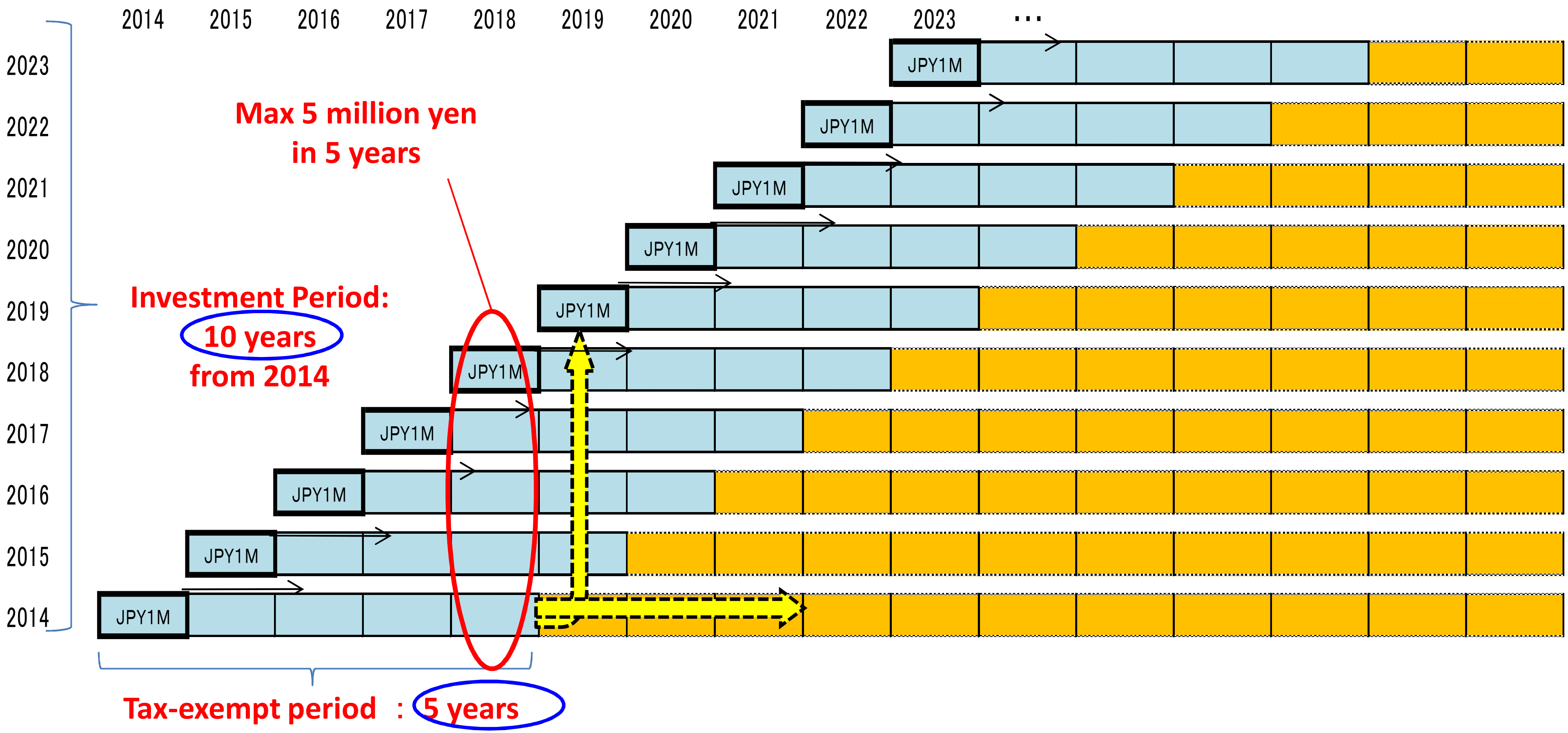
<Purpose>

① Support of reallocating financial assets held by households

② Supply of risk money for economic growth

Item	Outline
Timing of the Introduction	1 January 2014
Period of investment	Until 2023
Scope of tax exemption	Dividends and capital gains derived from listed shares and publicly-offered stock investment funds in NISA account
Annual investment limit	JPY 1.0 million
Tax-exempt period	5 years from the time of investment
Eligible persons	Residents of Japan (Aged 20 or more)
Withdrawal	Free (Reinvestment is not allowed)
Profit/loss offset	Losses in NISA accounts may not be used for profit/loss offset
NISA accounts	1 account per person at a bank or a securities firm

Overview of the current NISA system (2)



* Income/capital gain from NISA is exempted from taxation for a maximum of 5 years.
* After the 5-year exemption period, investors can:
  > continue tax exemption through newly available investment limit; or
  > transfer securities into an ordinary account.

2. Promoting Japanese Market as a "Financial Center"

♦ Withholding tax exemption for interest on cash collaterals for derivative transactions

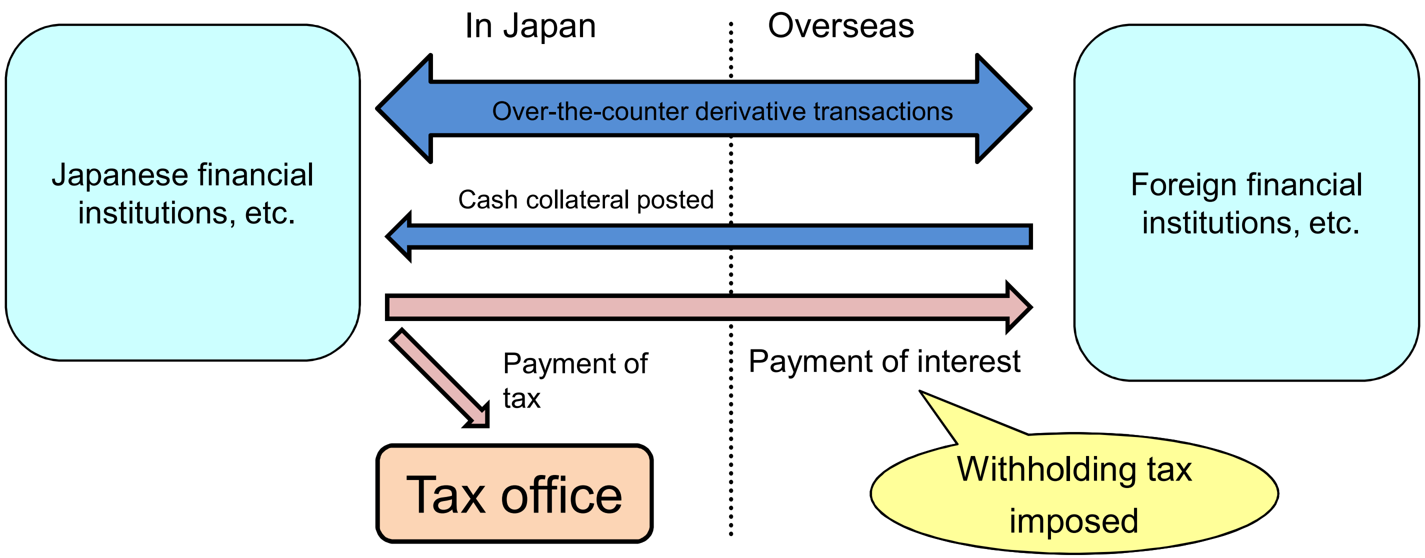
Current status and issues:

○ Unlike other jurisdictions, interest on cash collateral that financial institutions receive in the context of OTC derivative transactions from overseas counterparties is currently subject to withholding tax in Japan.

Overview (Outline for the FY 2015 Tax Reform):
Interest on specified types of collateral related to OTC derivative transactions entered into by Japanese counterparties with foreign financial institutions before the end of March 2018 will be exempt from withholding tax.

Current taxation laws:

* Diagram showing relationships for transactions that are not centrally cleared



3. Issues associated with corporate income tax reform

♦ Revisions in the “dividends received deduction”

Current status and issues:

○ The “dividends received deduction(DRD)" allows a company to exclude a specified amount of dividends received from its taxable income in order to avoid double taxation.

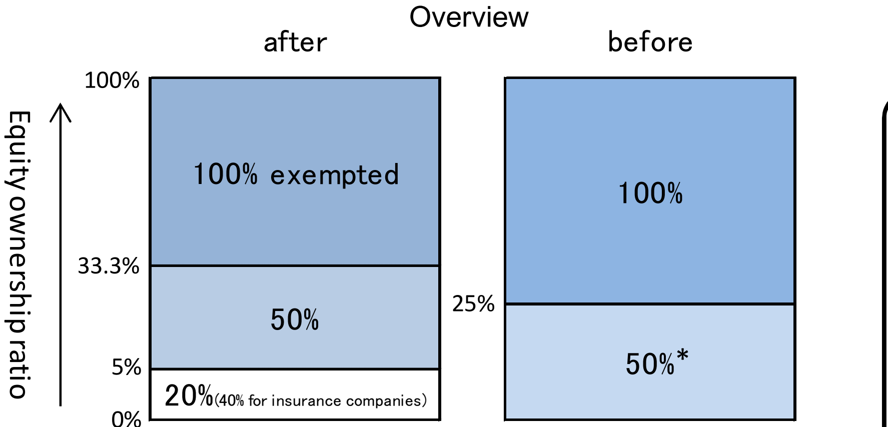
○ However, this treatment has been downsized twice on shares representing less than 25% ownership. As a result, the level of DRD varies from other jurisdictions.

○ In the context of corporate income tax reduction downsizing of this treatment is being discussed.

○ In the FY 2015 Tax Reform, although such a reduction may lead to increased double taxation, the benefit of DRD is reduced as follows in order to finance the resource for the corporate income tax rate reduction.

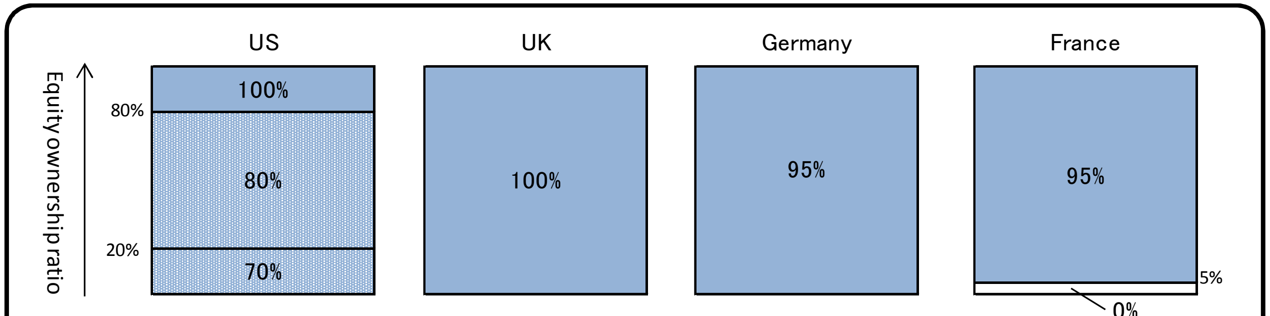
Overview (Outline for the FY 2015 Tax Reform):

- **The entire amount of dividend proceeds on equity holdings representing over one-third ownership (“affiliate company shares”) will be allowed to be excluded from taxable income.**
- **20% (40% for insurance companies) of dividend proceeds on equity holdings representing ownership of 5% or less (“portfolio investment”) will be allowed to be excluded from taxable income.**
- **50% of dividend proceeds on other equity holdings (representing ownership of over 5% and up to one-third) are allowed to be excluded from taxable income.**



* Reduced from 100% to 80% in 1988.
Further reduced to 50% in 2002.

Ratios of the dividends received deduction in other countries



Source: Handouts for the second meeting for fiscal 2013 of the corporate tax discussion group at the Cabinet Office's Tax Commission