

Taxation of Revenue Bond Q&A

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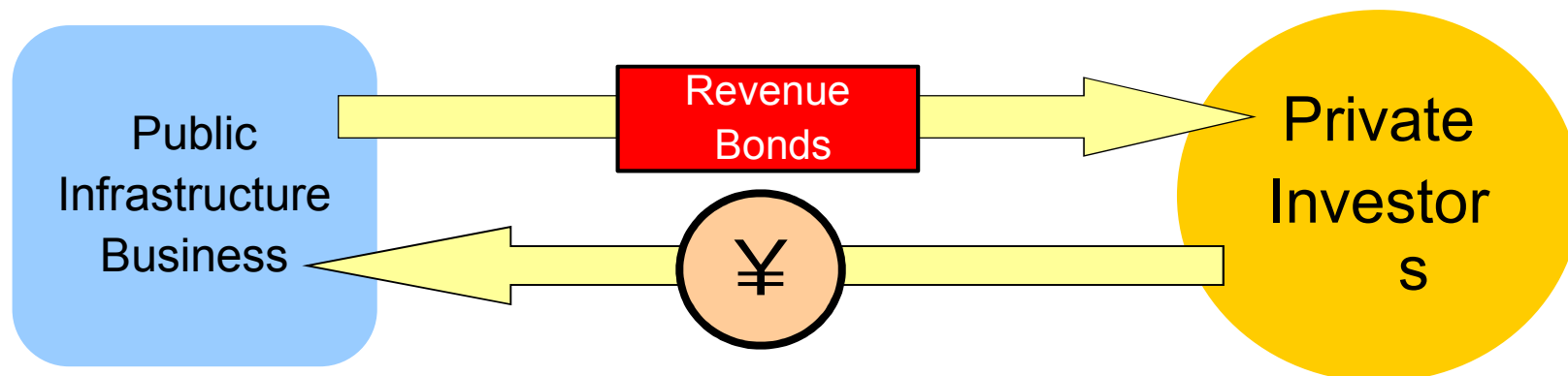
Financial Services Agency



Q1 : What is a Revenue Bond?

A1 : A Revenue Bond is generally a bond whose repayment funds come from business income arising from a public infrastructure business, and the payments of its principal and interest are correlated with such business income.

- In connection with public infrastructure businesses like toll highways or public housing, how to diversify medium or long-term financing measures has become an important matter. Revenue Bonds whose repayment funds come from revenues arising from public infrastructure businesses have become the center of attention as a measure to enable medium or long-term financing.
- An issuer of Revenue Bonds can transfer the business risk involved in the public infrastructure business to private investors. Therefore, if the public sector is financed by Revenue Bonds not guaranteed by local governments, it can lead to decreased dependence on the general budget related to funds for the public infrastructure business and we can expect the effect of contributing the sound public financing of local governments
- For example, in the U.S., construction funds for Yankee Stadium were financed by Revenue Bonds, and 66% of local government bonds are Revenue Bonds.



Q2 : How is interest on Revenue Bonds received by foreign investors treated for tax purposes?

A2 : Interest on corporate bonds, etc. (Note), including Revenue Bonds, received by foreign investors is generally not subject to tax in Japan, though, if such interest is correlated with revenues, assets or dividends, etc. of the issuer (profit-linked bonds), it is subject to withholding income tax of 15%.

However, the 2012 tax reform introduced that interest on profit-linked bonds satisfying the following requirements and received by foreign investors is not subject to tax in Japan.

- ① Issued by a public corporation, etc. fully owned by specified local governments prescribed in the Great East Japan Earthquake Rehabilitation Special Zone Act.
- ② Not guaranteed by local governments.

(Note) Interest on Japanese government bonds (JGB) or local government bonds received by foreign investors is not subject to tax in Japan, even if they are profit-linked bonds. It should be noted that the above is an explanation of bonds treated in the book entry transfer system.

