

Tax Reform in FY 2016

- Key FSA-related Items in
the Outline for the FY 2016 Tax Reform -

April 2016

Financial Services Agency

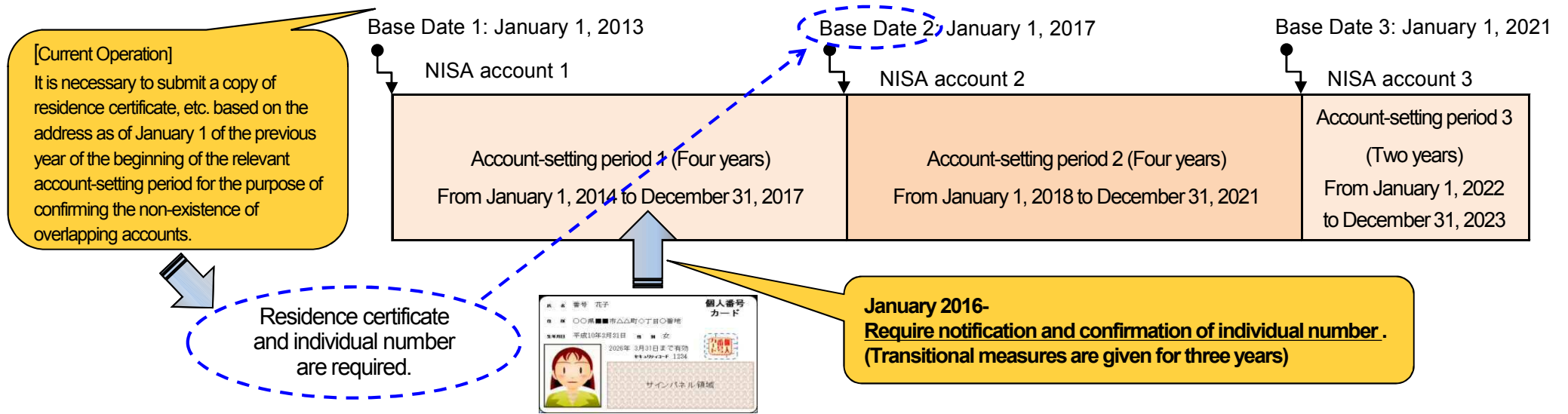


1. Supporting asset formation for households and
supplying Growth Capital

◆ Improving the Convenience to Promote Further Use of NISA

[Current Status and Issues]

- Regarding the opening of NISA accounts, in order to ensure that there are not any other overlapping accounts for each account-setting period, it is necessary for users to submit a copy of their residence certificate, etc. based on the address as of January 1 of the previous year of the beginning of the relevant account-setting period. Following the introduction of the social security and tax number system, the submission of the individual number shall also be necessary in addition to the copy of the residence certificate, etc.
- Toward further dissemination and enhancement of NISA, the simplification of the procedures for opening an account is necessary so that complicated procedures will not hinder users' motivation for investment.



[Outline for the FY 2016 Tax Reform]

- **The application form for a certificate of tax exemption shall not require the attachment of a copy of residence certificate, etc. as of the base date. In addition, the account-setting period starting from 2018 shall be combined.**
 Note: This amendment will apply to the application form for a certificate of tax exemption for the account-setting period starting from 2018.
- **As of October 1, 2017, those who already have a tax-exempt management account for 2017 and notify their individual numbers, shall be deemed to have submitted an application form for a certificate of tax exemption for the account-setting period starting from 2018.**

◆ Simplification of Procedures following the Introduction of the Social Security and Tax Number System

[Current Status and Issues]

- “The Social Security and Tax Number System” shall be introduced in January 2016 with a view to enhancing the efficiency of administrative operations, ensuring fair payment and burdens in the administrative field, and improving the convenience for citizens.
- In order to expand the number of individual investors, it is important to improve the convenience for investors. In this context, using the Social Security and Tax Number System to simplify the tax procedures regarding investments is compliant with the basic principles of the system.

(Reference) the Act on the Use of Numbers to Identify a Specific Individual in the Administrative Procedure

(Basic Principles)

Article 3 (2): Measures on the use of Individual Numbers and Corporate Numbers aim for an improvement of the convenience for citizens, through enhancing the efficiency of administrative operations. They shall be promoted in order to facilitate the use for the fields related to the social security system, taxation, and disaster control measures, and shall be implemented in consideration of the possibility of the use in other administrative fields and non-administrative fields that contribute to improving the convenience for citizens, while giving sufficient consideration to the protection of Personal Information.

[Outline for the FY 2016 Tax Reform]

Notification of Individual Number shall be unnecessary when a person who has already notified a financial institution of his/her individual number is to conduct procedures to open an account with the same financial institution, and the individual number of the said person can be recognized in the books.

◆ Unification of Financial Income Taxation (Expansion of Scope of Profit/loss Offset for Financial Instruments)

[Current Status and Issues]

- The scope of profit/loss offset for financial instruments was expanded in the FY 2013 Tax Reform to specified government or company bonds in addition to listed stocks and publicly offered investment trusts. (to be implemented in January 2016 and thereafter).
- The expansion of the scope of profit/loss offset to derivatives transactions and deposits is not authorized yet.

[Outline for the FY 2016 Tax Reform (compiled by the ruling parties)]

Further unification of taxation on financial income including income from derivatives transactions should be considered on the viewpoint that it will contribute to the realization of a “Comprehensive Exchange” that handles all instruments including securities, derivatives and commodities as well as that it will create an environment that facilitates investment in various financial instruments. Also, the necessity for effective measures to prevent intended tax avoidance activities by using diversified schemes should be taken into account.

Taxation Methods for Financial Instruments

	Income gains	Capital gains/losses	
Listed stocks and publicly offered investment trusts	Separate self-assessment taxation	Separate self-assessment taxation	<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">The scope of profit/loss offset is presently authorized.</div> <div style="border: 1px solid black; padding: 5px;">The scope of profit/loss offset shall be authorized in January 2016.</div>
Specified government or company bonds, and publicly offered bond investment trusts	From January 2016 Separate withholding taxation → Separate self-assessment taxation	From January 2016 Tax exempt → Separate self-assessment taxation	
Derivatives transactions	Separate self-assessment taxation		<div style="border: 1px solid black; padding: 5px;">Discussions on further unification will be continued.</div>
Bank deposits, etc.	Separate withholding taxation	—	

2. Promoting Japanese Market as an “International Financial Center”

◆ Extension of Tax-Exemption Measures Regarding J-Sukuk

[Current Status and Issues]

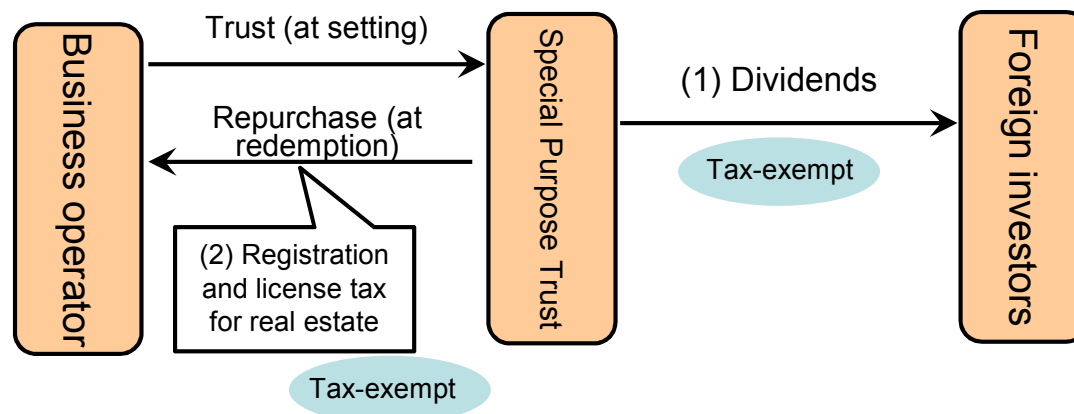
- In order to enable Islamic investors to invest, tax measures concerning quasi-bond beneficial interests issued by a special purpose trust (J-Sukuk) were established in the FY 2011 tax reform (Tax exemptions for J-Sukuk regarding dividends paid to foreign investors, and registration & license tax on the repurchase of real estate from a trust).
- With a view to promoting the issuance of J-Sukuk to improve the convenience and vitalization of the Japanese market, it is important to extend the tax-exempt measures. The sunset provisions for the tax-exemption measures will expire on March 31, 2016.

[Outline for the FY 2016 Tax Reform]

As to J-Sukuk, sunset provisions for the tax-exemption measures regarding (1) dividends to be paid to foreign investors; and (2) registration & license tax on the repurchase of real estate from a trust, shall be extended for three years.

[Current Status]

<Tax-exempt measures regarding J-Sukuk> (to expire on March 31, 2016)



[FY 2016 Tax Reform]

The tax-exempt measures regarding (1) and (2) to be extended for three years until March 31, 2019.

3. Other Proposed Items

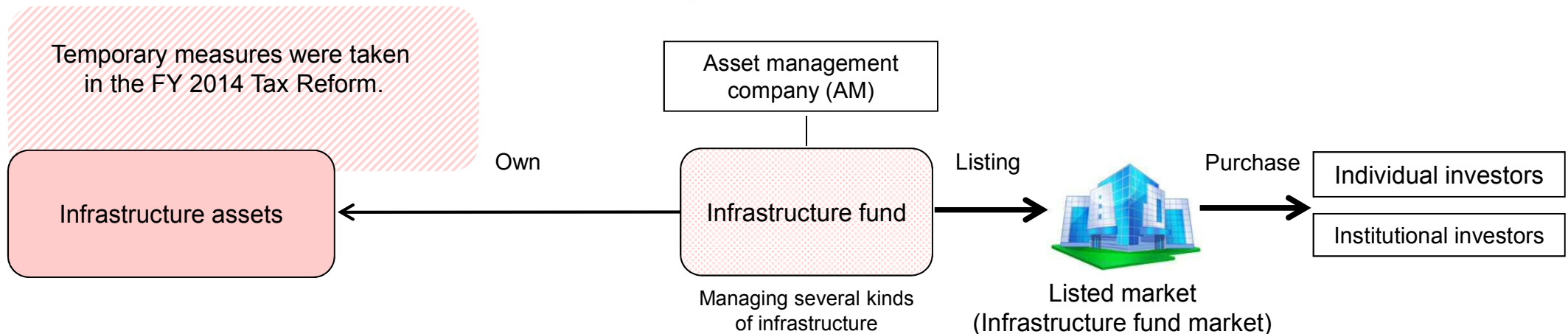
◆ Expansion of Tax Measures Regarding Investment Corporations (Infrastructure Funds)

[Current Status and Issues]

- Through the revision to the Cabinet Order for Enforcement of the Act on Investment Trusts and Investment Corporations in September 2014, Renewable Energy Power Generation Facilities were added to the main investment target of investment corporations. However, the temporary tax measures (“10-Year Requirement” in particular) have become a practical challenge for the arrangement of products and listing.
- In April 2015, the “Listed Infrastructure Fund Market” was established on the Tokyo Stock Exchange.

[Details of the Temporary Tax Measures]

- (1) Acquire Renewable Energy Power Generation Facilities by the end of March 2017. (3-Year Requirement)
- (2) Lower the percentage of Renewable Energy Power Generation Facilities in all assets to 50% or less within 10 years. (10-Year Requirement)



[Outline for the FY 2016 Tax Reform]

As to the sunset provision for the temporary measures regarding the conduit status of infrastructure funds that invest mainly in Renewable Energy Power Generation Facilities (to lower the percentage of Renewable Energy Power Generation Facilities in all assets to 50% or less within 10 years), the period shall be extended to “within 20 years”.

◆ Fundamental Revision of the Controlled Foreign Company (CFC) Rules

[Current Status and Issues]

- For the purpose of addressing tax avoidance using offshore subsidiaries based in low tax-rate countries, there is a tax system called the CFC Rules that taxes the combined incomes of certain types of offshore subsidiaries and the domestic parent company.
- Under the CFC Rules, while the definitions of a low tax-rate country and exclusions, etc. are in place so as not to hinder appropriate overseas investment activities by enterprises, there are still concerns under the current stipulations that even the income of offshore subsidiaries which conduct business activities with no tax avoidance purposes may be subject to the CFC Rules.
(Example) Business activities of non-life insurance companies' subsidiaries in the Lloyd's of London, and the aircraft leasing business
- In order to improve the business environment for Japanese financial institutions to conduct sound overseas business, it is necessary to fundamentally revise the CFC Rules so that appropriate corporate activities may not be hindered. Otherwise, the current exclusions should be revised.



[Outline for the FY 2016 Tax Reform]

1. Revision to the application methods of the exclusions

Application methods of the Substance Test, the Administration and Control Test, and the Non-Related Persons Test shall be revised for the controlled foreign companies, etc. which conduct insurance business in the Lloyd's of London.

2. Fundamental revisions (Outline for the FY 2016 Tax Reform compiled by the ruling parties)

“Based on the basic principles of the final report on the BEPS (Base Erosion and Profit Shifting) Project which aims at taxation in conformity with economic realities of offshore subsidiaries, comprehensive discussions should be conducted to draw conclusions with respect to the pressing issues of the aircraft leasing business, the ideal situation of trigger tax rates, and the handling of income with a high risk of tax avoidance, etc., taking into consideration of the purposes of this tax system which prevents tax avoidance using offshore subsidiaries located in low tax-rate countries, the impact on the industrial competitiveness and economy of Japan, and appropriate execution, etc.”