

Advisory Panel for Global Financial City Tokyo

“Taxation scheme— An Observation”

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I. Fundamentals of Tax Discussions

1. Tax is not a top priority for decision making, but still an important cost
2. Taxes are important tools to reflect specific policies
3. Taxes are multidimensional (= taxation base \times tax rate \times tax type)

II. Tax Rates

1. World Tax Rates (April 2016)

| Country | Effective Corporate Tax Rate* | Personal Income Tax Rate | Consumption Tax Rate | Income and Associated Inhabitant Tax Amount on Salary (unit: 10k JPY)* | | | Maximum Inheritance Tax Rate |
|-----------|-------------------------------|--------------------------|----------------------|--|---------------|----------------|------------------------------|
| | | | | 5 Million Yen | 7 Million Yen | 10 Million Yen | |
| Japan | 29.97% | National 5-45% | 8.0% | 15.8 | 39.2 | 100.9 | 55% |
| U.S.A. | ① 40.75% | Federal 10-35% | NYC 8.875% | 9.8 | 47.0 | 111.2 | ② 40% |
| U.K. | 20.00% | 20-45% | 20.0% | 56.4 | 96.4 | 201.8 | 40% |
| France | 33.33% | 14-45% | 20.0% | 39.3 | 60.9 | 127.6 | 45% |
| Germany | 29.72% | 14-45% | 19.0% | 38.7 | 90.6 | 181.4 | 30% |
| Singapore | 17.00% | 22% | 7.0% | | | | 0 |
| Hong Kong | 16.50% | 15% | 0.0% | | | | 0 |

① For California (State tax 8.84%), for NYC: Federal tax 35%, NY State 8.32%, NY City 8.85% (Effective tax rate 43.83%)

② Basic Deduction Amount is USD 5 million plus inflationary adjustments. As of Jan. 2015, basic deduction amount is USD 5.43 million (approx. 600 million Yen).

*As disclosed by Japan's National Tax Agency (NTA)

2. Japan's Effective Corporate Tax Rate(Post 2016 Tax Reform)

| | Standard Tax Rate | | Tokyo 23 Wards | | Osaka City |
|---|-------------------|--|----------------|--|------------|
| Corporate Tax Rate① | 23.40% | Corporate Tax Rate | 23.40% | Corporate Tax Rate | 23.40% |
| Local Corporate Tax② | 4.40% | Local Corporate Tax | 4.40% | Local Corporate Tax | 4.40% |
| Inhabitant Tax Rate (Prefecture, City/Town) | 12.90% | Tokyo City Tax Rate (Corporation Levy) | 16.30% | Inhabitant Tax Rate (Osaka Pref. Corp. Levy) | 4.20% |
| | | | | Inhabitant Tax Rate (Osaka City Corp. Levy) | 11.90% |
| Business Tax (Standard Rate) ③ | 0.70% | Business Tax (Standard Rate) | 0.70% | Business Tax (Standard Rate) | 0.70% |
| Business Tax (Excess Tax Rate) | 0.70% | Business Tax (Excess Tax Rate) | 0.88% | Business Tax (Excess Tax Rate) | 0.88% |
| Special Local Corporation Tax Rate ④ | 414.20% | Special Local Corporation Tax Rate | 414.20% | Special Local Corporation Tax Rate | 414.20% |
| Effective Tax Rate | 29.97% | Effective Tax Rate | 30.86% | Effective Tax Rate | 30.81% |
| National Tax Only (Rate) | 26.56% | National Tax Only (Rate) | 26.56% | National Tax Only (Rate) | 26.56% |

Effective Tax Rate

$$= [\text{Corporate Tax Rate} \times (1 + \text{Local Corporate Tax Rate} + \text{Corporate Inhabitant Tax Rate}) + \text{Business Tax Rate (Excess Tax Rate)} + \text{Business Tax Rate (Standard Tax Rate)} \times \text{Special Local Corporation Tax Rate}] / [1 + \text{Business Tax Rate (Excess Tax Rate)} + \text{Business Tax Rate (Standard Tax Rate)} \times \text{Special Local Corporation Tax Rate}]$$

- ① From the beginning of the FY effective after April 1, 2018 : 23.20% (planned)
- ② From the beginning of the FY effective after October 1, 2019: 10.30% (planned)
- ③ After special local tax provisional measures are abolished (From the beginning of the FY effective after October 1, 2019): 3.60% (planned)
- ④ To be abolished and integrated with business tax, from the beginning of the FY effective after October 1, 2019.

III. Proposal for Counter Measures

“Measures for low birthrate and aging society and to attract highly skilled talent”

1. TMG’s Measures

- (1) Reduction and exemption of special local corporation tax rates as stipulated in Local Tax Act Article 6

Item 1 - If deemed to be inappropriate due to public interest, local bodies may not need to levy tax.

Item 2 - Local bodies may levy tax in a non-uniform manner, if deemed necessary from public interest and other reasons.

Example: Osaka’s “Tax Incentive System in the Comprehensive Global Strategic Special Zone”

- (2) Provision of funds

Supply capital utilizing subsidies

- (3) Enhancement of international schools by TMG

2. National Measures

(1) Reduce tax rates

(2) Taxation base

For corporations

- Enhancing advance consultation system
- Investment tax credit on computer software development expenses
- Tax credit on R&D expenses for developing new financial products
- Changes to resident criteria for inheritance taxes (from criteria based on number of days to criteria based on its intention)
- Reporting form for assets located outside Japan for non-residents
- Tax reduction / exemption for new companies

For investors

- Unified tax on financial income
- Aggregation of profit and loss for financial losses
- Income (tax) deduction system for hiring housekeeper
- Avoidance of double taxation on inheritance tax (acquisition cost of inherited assets as appraisal value)
- Pass through investment trusts
- Application of the 25%/5% rule to partnerships