



## GES NewsFlash

# Japan – 2011 tax reform: proposals and disaster-related relief

May 16, 2011

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### Summary

On December 16, 2010, the Japan Tax Commission set out its proposals for 2011 tax reform. Please see our GES NewsFlash of December 20, 2010, for earlier coverage. In general, these reforms were expected to take effect on April 1, 2011, the start of the new financial year. However, due to opposition in the National Diet, it appeared that legislation was unlikely to be passed by the end of the March 2011 deadline, and following the events of March 11, 2011, there were other priorities for the government. As a result, the headline tax reforms have not been enacted into law. Instead, as a stopgap measure, certain special measures, due to expire at the end of March 2011, was extended from March 31, 2011 to June 30, 2011.

This GES NewsFlash highlights key extended special measures and also provides an update of special disaster-related tax relief measures proposed in relation to the March 11, 2011 disaster.

### 2011 tax reform proposals and extended special measures

Extended special measures, include, amongst others:

- The small- and medium-sized enterprise (SME) corporate tax rate of 18% (which would otherwise revert to 22%).
- Bad debt relief special provisions for SMEs.
- The research and development (R&D) tax credit up to 30% of corporate income tax liability (which was due to revert to 20%). There continues to be an additional R&D tax credit available up to a further 10% of corporate income tax liability, which is not due to expire until March 31, 2012.
- A special stamp duty reduction in respect of contracts for certain real estate transactions.
- A reduced real estate acquisition tax for TMKs.
- Various special depreciation measures.

The above extensions are intended as a stopgap measure only, to extend existing special tax reliefs and reduced rates until a tax reform bill is passed. There are no new measures included.

It is not clear whether the 2011 tax reform proposals will be passed in their original form, though it seems likely that some of the tax-reducing measures may be omitted

in order to meet, in part, the significant additional budget requirements expected.

No due dates for the revised 2011 tax reform proposals, nor effective date of any reforms once enacted, have been published, but the government has stated its intention of drafting a further budget in June or July (Kyodo news: April 3, 2011) and it is expected that updated tax reform proposals may be published at this time or earlier. As the current extension of special measures expires on June 30, 2011, the revised tax reform proposals should be enacted by this date, or further extensions may be required.

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### **Disaster-related tax relief measures**

Separately, special tax relief measures relating to the earthquake and tsunami were announced in early April and are expected to be enacted by the end of May 2011. Special measures are intended to provide relief for victims of the disaster and assist businesses with recovery. Measures for companies include, amongst others:

- A refund of corporate income tax paid for the last two years up to the amount of losses suffered from the disaster. This measure includes relief for local as well as national taxes.
- Disaster-related donation relief will be expanded to increase deductions available for donation expenses.

For more information regarding these special disaster-related tax relief measures, be sure to join our special edition Asia Pacific Dbriefs webcast on May 20, 2011. For further details and to register for this event <http://www.deloitte.com/ap/dbriefs>.

#### **Deloitte's View**

Naturally, the reconstruction of the disaster-hit areas of Japan and the cost of financing this is a top priority for the Japanese government. Currently, it is unclear what methods of funding the recovery and relief efforts will be introduced, but they are likely to include one or more of an income tax surcharge, an increase in consumption tax, or an increase in the corporate tax rate. Given that it is likely that the net income of individual taxpayers in Japan will be affected in some measure, employers with mobile employees based in Japan, or considering assignments to Japan, should be prepared to review assignment-related tax costs or net salary packages when the methods of financing the recovery become clearer.

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### **People to contact**

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