

## Newsletter (July 2018) | Tax Practice

# “Some important amendments of the domestic tax laws under the Government of Japan’s 2018 Tax Reform with regard to corporate tax, income tax, and gift and inheritance tax”

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We are pleased to provide you with our Tax Newsletter, July 2018 issue. We have summarized below some important amendments of the domestic tax laws under the Government of Japan’s 2018 Tax Reform with regard to corporate tax, income tax, and gift and inheritance tax.

### 1. Corporate Tax

#### Key points under the 2018 Tax Reform

- Revision of salary increase tax credit which should benefit corporations
- Disallowance of tax credits for large-sized corporations
- Introduction of tax incentives for investment in data collaboration assets
- Filing tax returns by the e-Tax online filing system

#### a. Revision of salary increase tax credit which should benefit corporations

Before the tax reform, if corporations satisfied the below three requirements, 10% of the increased salary amount from the base period (2013 in case of fiscal year ended December 31) was credited from the corporate tax liabilities with a limitation of 10% of corporate tax liabilities (20% in case of small and medium sized corporations (SMCs)).

1. Total amount of salaries were increased 5% (3% for SMCs) or more from the base period,
2. Total amount of salaries were increased from the previous year, and
3. Average salary payments were increased 2% or more (more than the previous year for SMCs) from the previous year

Under the 2018 Tax Reform, the tax credit has increased while the requirements to obtain such tax credit have become more relaxed (the new salary increase tax credit has been applied for the fiscal year starting from April 1, 2018 to March 31, 2021). Under the new regulations, the

requirements for the tax credit are separately regulated for large-size corporations and SMCs as follows:

Requirements	Large-size corporations	SMCs (*)
Salary increase	Average salary payments are increased 3% or more from the previous year	Average salary payments are increased 1.5% or more from the previous year
Equipment investment	Investment for domestic equipment accounts for 90% or more of depreciation expenses in the current year	Not necessary
Tax credit	15% of the increased salary amount from the previous year with a limitation of 20% of corporate tax liabilities	15% of the increased salary amount from the previous year with a limitation of 20% of corporate tax liabilities

(\*) SMCs are corporations with capital of JPY 100 million or less, excluding corporations with where 50% or more of its shares are held by a large-size corporation (corporations with capital of more than JPY 100 million or corporations) or 2/3 or more of its shares are held by a number of large-size corporations.

Also, for corporations which have invested in their human resources and satisfied the following conditions, the tax credit will be increased as follows:

	Large-Size corporations	SMCs
Requirements	Education and training costs have on average increased 20% or more for the past 2 years	Average salary payment was increased 2.5% or more from the previous year and satisfied one of following conditions: 1. Education and training costs have increased 10% or more from the previous year, or 2. The competent minister approved the business plan regarding improvement of management capability and certified the efficiency of the plan.
Tax credit	20% of the increased salary amount from the previous year with a limitation of 20% of corporate tax liabilities	25% of the increased salary amount from the previous year with a limitation of 20% of corporate tax liabilities

#### **b. Disallowance of tax credits for large-sized corporations**

If large-sized corporations fall under the below conditions, certain tax credits will be disallowed (this will be applied for the fiscal year starting from April 1, 2018 to March 31, 2021).

1. Taxable income increased compared with the previous year,
2. But, average salary payment was lower than or equal to the previous year, and
3. Investment for domestic equipment accounts for 10% or less of depreciation expenses in the previous year

The following tax credits will not be allowed:

- Tax credits for research and development,
- Tax credits for local future investments, and
- Tax credits for investment in data collaboration assets

#### **c. Introduction of tax incentives for investment in data collaboration assets**

“Blue form” tax return corporations, which obtained an approval from the competent minister in connection with an “innovative data use plan” under the Special Measures Act for the Improvement of Productivity, and which invested in certain data collaboration assets (i.e., software, and machines or equipment used with the software, except used for research and development purposes) which the total acquisition cost is 50 million yen or more based on the plan, a tax credit or a special depreciation (IoT tax incentive) were introduced.

The IoT tax incentive was applicable for the acquisition of assets from the effective date of the Act to March 31, 2021. Corporations which are eligible to receive the IoT tax incentive are able to choose from following tax credit or special depreciation:

	Tax credit	Special depreciation
Average salary payment was increased less than 3%	Acquisition cost x 3% with a limitation of 15% of corporate tax liabilities	Acquisition cost x 30%
Average salary payment was increased 3% or more	Acquisition cost x 5% with a limitation of 20% of corporate tax liabilities	

#### **d. Filing tax returns by the e-Tax online filing system**

Starting from the April 1, 2018 fiscal period, large-sized corporations (except foreign corporations) with capital of more than JPY 100 million must file their corporate and consumption tax returns including interim tax returns by the e-Tax online filing system. Except for cases where there are unavoidable reasons, filing tax returns by paper will be treated as a non-filing.

## 2. Income Tax

Key points under the 2018 Tax Reform

- Reduce 100,000 yen of salary income deduction, and limited 1,950,000 yen
- Increase 100,000 yen of basic deduction, and exempted total income exceed 25 million yen or more
- Reduce 100,000 yen of pension income deduction (200,000 yen in case total income exceed 10 million yen, 300,000 yen in case total income exceed 20 million yen), and introduced limitations
- New income adjustment deduction was introduced

### a. Decrease of salary income deduction

From the calendar year 2020 (2021 for local inhabitant tax purposes), the salary income deduction will be reduced by 100,000 yen for each salary range with reduced capture of 1,950,000 yen. The salary income deduction before and after the tax reform are as follows:

(Before tax reform, national tax and local inhabitant tax)

Gross salary	Salary income deduction
≤ 1,800,000 yen	Gross salary x 40% (minimum 650,000 yen)
1,800,001 - 3,600,000 yen	Gross salary x 30% + 180,000 yen
3,600,001 - 6,600,000 yen	Gross salary x 20% + 540,000 yen
6,600,001 - 10,000,000 yen	Gross salary x 10% + 1,200,000 yen
≥ 10,000,001 yen	2,200,000 yen

(After tax reform, national tax and local inhabitant tax)

Gross salary	Salary income deduction
≤ 1,625,000 yen	550,000 yen
1,625,001 - 1,800,000 yen	Gross salary x 40% - 100,000 yen

1,800,001 - 3,600,000 yen	Gross Salary x 30% + 80,000 yen
3,600,001 - 6,600,000 yen	Gross Salary x 20% + 440,000 yen
6,600,001 - 8,500,000 yen	Gross Salary x 10% + 1,100,000 yen
≥ 8,500,001 yen	1,950,000 yen

#### b. Increase of basic deduction

From the calendar year 2020 (2021 for local inhabitant tax purposes), the basic deduction will be increased 100,000 yen for each gross income range with new capture based on the gross income. The basic deduction before and after the tax reform are as follows:

(National income tax)

Gross income	Basic deduction (Before tax reform)	Basic deduction (After tax reform)
≤ 24,000,000 yen	380,000 yen	480,000 yen
24,000,001 - 24,500,000 yen	380,000 yen	320,000 yen
24,500,001 - 25,000,000 yen	380,000 yen	160,000 yen
≥ 25,000,001 yen	380,000 yen	0 yen

(Local inhabitant tax)

Gross income	Basic deduction (Before tax reform)	Basic deduction (After tax reform)
≤ 24,000,000 yen	330,000 yen	430,000 yen
24,000,001 - 24,500,000 yen	330,000 yen	290,000 yen
24,500,001 - 25,000,000 yen	330,000 yen	150,000 yen
≥ 25,000,001 yen	330,000 yen	0 yen

#### c. Decrease of pension income deduction

From the calendar year 2020 (2021 for local inhabitant tax purposes), the pension income deduction will be reduced by 100,000 yen for each gross pension range with a new capture of 1,955,000 yen. The pension income deduction before and after the tax reform are as follows:

(Age less than 65, national tax and local inhabitant tax)

Gross pension (A)	Pension income deduction (Before tax reform)	Pension income deduction (After tax reform) (*)
≤ 1,300,000 yen	700,000 yen	600,000 yen
1,300,001 - 4,400,000 yen	(A)x25% + 375,000 yen	(A)x25% + 275,000 yen
4,100,001 - 7,700,000 yen	(A)x15% + 785,000 yen	(A)x15% + 685,000 yen

7,700,001 - 10,000,000 yen	(A)x5% + 1,555,000 yen	(A)x5% + 1,455,000 yen
≥ 10,000,001 yen		1,955,000 yen

(\*) In the case where gross income (not including pension income) exceeds 10,000,000 yen, the amount of the pension income deduction will be reduced by 100,000 yen as referenced in the above table, and where gross income (not including pension income) exceeds 20,000,000 yen, the amount of the pension income deduction will be reduced by 200,000 yen for each gross pension range.

(Age 65 or more, national tax and local inhabitant tax)

Gross Pension (A)	Pension income deduction (Before tax reform)	Pension income deduction (After tax reform) (*)
≤ 3,300,000 yen	1,200,000 yen	1,100,000 yen
3,300,001 - 4,100,000 yen	(A)x25% + 375,000 yen	(A)x25% + 275,000 yen
4,100,001 - 7,700,000 yen	(A)x15% + 785,000 yen	(A)x15% + 685,000 yen
7,700,001 - 10,000,000 yen	(A)x5% + 1,555,000 yen	(A)x5% + 1,455,000 yen
≤10,000,001 yen		1,955,000 yen

(\*) In the case where the gross income (not including pension income) exceeds 10,000,000 yen, the amount of the pension income deduction will be reduced by 100,000 yen for each gross pension range, and where gross income (not including pension income) exceeds 20,000,000 yen, the amount of the pension income deduction will be reduced by 200,000 yen for each gross pension range.

#### d. New income adjustment deduction

From the calendar year 2020 (2021 for local inhabitant tax purposes), if a taxpayer falls under one of the below categories and his/her current year's gross salary exceeds 8,500,000 yen, a new income adjustment deduction will be applied.

- A special handicapped taxpayer,
- A taxpayer who has dependents aged less than 23, or
- A taxpayer who has special handicapped dependents or special handicapped spouse

The new income adjustment deduction will be calculated as follows with a capture of 150,000 yen: (Gross salary - 8,500,000 yen) x 10%

### 3. Gift and Inheritance tax

**Key point of tax reform**

- Revision of gift and inheritance tax obligation for long-term stay foreigners

**a. Revision of gift and inheritance tax obligation for long-term stay foreigners**

Before the tax reform, long-term stay foreigners (foreigners who have kept their domicile in Japan for more than 10 years for the past 15 years) were imposed a gift and an inheritance tax on their worldwide assets within 5 years after their departure from Japan.

After April 1, 2018, long-term stay foreigners who have not kept their domicile in Japan are imposed gift and inheritance tax on their assets only located in Japan. But, if they gift assets located outside Japan to a beneficiary after their leave from Japan, and if they return to Japan within 2 years, such gifts will be imposed a gift tax.



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