



KPMG Japan Tax Newsletter

20 December 2019



OUTLINE OF THE 2020 TAX REFORM PROPOSALS

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The ruling coalition (the Liberal Democratic Party and New Komeito) agreed on the 'Outline of the 2020 Tax Reform Proposals' (Proposal) on 12 December 2019. We have set out below brief summaries of the main points of the Proposal.

The Proposal itself is only an indicative outline and is unclear with respect to some of the contemplated changes. The details of the tax reform will be unveiled in the bills revising the tax laws and the succeeding amended tax laws, cabinet orders and ministerial ordinances. Please note that the final tax reform could differ from the Proposal depending on the outcome of discussions in the Diet.

Note that this newsletter does not cover the Japanese Group Relief System, which will replace the Consolidated Tax Return Filing System by virtue of the 2020 tax reform.

The KPMG Japan Tax Newsletter issued on 18 December 2019 focuses on the Japanese Group Relief System. (Japanese only)

I. Corporate Taxation

1. Amendments in relation to the Introduction of Japanese Group Relief System to replace the Consolidated Tax Return Filing System

(1) Background of the amendments

The Consolidated Tax Return Filing System is a mechanism to tax group companies as single tax unit. This system was introduced in 2002 in order to enhance corporate reorganizations and contribute to the maintenance and strengthening of international competitiveness of Japanese companies and structural reform of the economy.

While the Consolidated Tax Return Filing System has been utilized effectively for 18 years since its inception, it has been pointed out that the calculation of tax under the system is extremely complex, and substantial time is required for correction of the tax amount after a tax audit by the tax authorities. Consequently, there are many groups which do not elect to use the Consolidated Tax Return Filing System despite the benefit of offsetting income against losses.

Therefore, the Tax Commission of the Japanese government conducted an examination of the Consolidated Tax Return Filing System from the viewpoint of simplification of the system to reduce the administrative burden and to provide neutrality and fairness. As a result, they reported the direction of the revision of the Consolidated Tax Return Filing System on 27 August 2019.

By virtue of the 2020 tax reform, based on the above report, the Consolidation Tax Return Filing System will be revised fundamentally to the new so-called Japanese Group Relief System which allows offset of income and losses of companies belonging to a 100 percent group, although the companies continue to file their tax returns individually.

In order to be consistent with the measures under the Japanese Group Relief System, the following corporation tax amendments (2) will be applied to a company which will not use the Japanese Group Relief System.

Note that additional measures in relation to the above amendments are expected for local tax purposes.

(2) Contents of the amendments

The proposed following treatments will apply to a company which will not use the Japanese Group Relief System:

		Current tax law	Proposal
Domestic dividend exclusion	Determination of share category	'Shares in related companies' or 'Non-controlling shares' are determined based on the number of shares held by the dividend recipient company.	'Shares in related companies' or 'Non-controlling shares' will be determined based on the total number of shares held by the dividend recipient companies <u>in the same 100% group</u> .
	Interest deduction on debts	The amount of the interest deduction on debts applied to dividends from related companies is calculated based on the ratio of book values of the shares to the book value of total assets.	The amount of the interest deduction on debts applied to dividends from related companies will be calculated as follows: <u>Amount of dividends from related companies x 4%</u> (Upper limit: Amount of interest on debts in the fiscal year x 10%)
Donations		One of the elements of the calculation of the deductible limit for ordinary donations is based on the amount of stated capital and capital surplus of the donating company.	One of the elements of the calculation of the deductible limit for ordinary donations will be based on the total amount of <u>stated capital and capital reserve of the donating company</u> .
Deductible provision for bad debts		Account receivables from a 100% group company are included in the calculation of the deductible limit under the provision.	<u>Account receivables from a 100% group company will be excluded from the calculation of the deductible limit under the provision.</u>

(3) Timing of application

Because the Japanese Group Relief System will be applied for fiscal years beginning on or after 1 April 2022, the amendments above may also be applied at the same timing.

2. Special Measures for Promoting Open Innovation

Special measures which allow for certain deductions from taxable income will be proposed in order to encourage companies to promote business innovation by themselves based on investments in new businesses through their investments in certain venture companies, rather than closed and high cost self-development.

Eligible companies	Blue-return filing companies who conduct specified business activities
Conditions	<p>The following conditions are satisfied:</p> <ul style="list-style-type: none"> • Eligible companies acquire specified shares between 1 April 2020 and 31 March 2022. • Eligible companies continue to own the specified shares at the end of the fiscal year including the day of acquisition. • Eligible companies record 25% or less of the acquisition cost of the specified shares as a special account.
Tax incentive	<p>[Deduction of special account]</p> <p>The total amount recorded as a special account is deductible. (Upper limit: income of the fiscal year)</p>
	<p>[Inclusion in taxable income from reversal of special account]</p> <p>Where there is a reversal of the special account due to certain causes, the amount attributable to the cause is reversed and is included in taxable income. (The above treatment is not applied where specified shares were acquired 5 years or more before.)</p>

[Definition of key terms]

Companies who conduct specified business activities	Stock companies etc. aimed towards undertaking business expected to have high productivity or for the development of new business, by utilizing management resources other than a business's own management resources
Specified shares	<p>Among shares of companies defined in (a), shares certified by the Minister of Economy, Trade and Industry that the shares satisfy conditions defined in (b)</p> <p>(a) Companies ('Special companies developing new business')</p> <ul style="list-style-type: none"> • Among 'companies developing new business' prescribed by the 'Act for Strengthening Industrial Competitiveness', Japanese companies conducting business to contribute to 'specified business activities' prescribed by the Act above (limited to companies who have already commenced business and which were established less than 10 years before) • Foreign companies who are equivalent to the above companies <p>(b) Conditions</p> <ul style="list-style-type: none"> • Shares acquired by eligible companies • Shares issued by contribution with increase of capital • Amount of contribution for shares is JPY100 million or more (JPY10 million or more for contribution by small and medium-sized companies, JPY500 million or more for contribution to foreign companies). • Some criteria are satisfied where eligible companies acquire shares in 'special companies developing new business' etc.

Reversal of the special account due to certain causes	<ul style="list-style-type: none"> • Eligible companies have their certification as specified shares revoked by the Minister of Economy, Trade and Industry. • Eligible companies do not retain ownership of all or some of the specified shares. • Eligible companies receive dividends on the specified shares. • Eligible companies reduce the book value of specified shares. • 'Special companies developing new business' are dissolved. • Eligible companies are dissolved. • Eligible companies reverse the special account voluntarily etc.
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3. Restriction on Eligible Companies for Special Tax Measures

From the viewpoint of changing corporate sentiment and promoting decisive business judgement, tax measures that restrict large-sized companies from applying certain types of special tax measures will be strengthened as follows, where they do not take positive actions for pay-raises and capital investment in spite of increasing their profits:

[Current tax law]

(1) Outline of the measures	Large-sized companies are not allowed to apply tax credits under the three special tax measures indicated in (3) below for fiscal years beginning between 1 April 2018 and 31 March 2021 where neither condition (i) nor (ii) in (2) is met.							
(2) Conditions	(i)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"> (a) Salary payments for continuously employed people in the current fiscal year </td> <td style="width: 10%; text-align: center; vertical-align: middle;">></td> <td style="width: 40%; text-align: center;"> (b) Salary payments for continuously employed people in the preceding fiscal year </td> </tr> <tr> <td colspan="3" style="text-align: center;"> (If both (a) and (b) are zero, condition (i) is treated as being satisfied.) </td> </tr> </table>	(a) Salary payments for continuously employed people in the current fiscal year	>	(b) Salary payments for continuously employed people in the preceding fiscal year	(If both (a) and (b) are zero, condition (i) is treated as being satisfied.)		
	(a) Salary payments for continuously employed people in the current fiscal year	>	(b) Salary payments for continuously employed people in the preceding fiscal year					
	(If both (a) and (b) are zero, condition (i) is treated as being satisfied.)							
(ii)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"> Total acquisition costs of depreciable assets located in Japan in the current fiscal year </td> <td style="width: 10%; text-align: center; vertical-align: middle;">></td> <td style="width: 40%; text-align: center;"> Total depreciation costs of depreciable assets recorded in the current fiscal year </td> </tr> <tr> <td colspan="3" style="text-align: right;"> × <u>10%</u> </td> </tr> </table>	Total acquisition costs of depreciable assets located in Japan in the current fiscal year	>	Total depreciation costs of depreciable assets recorded in the current fiscal year	× <u>10%</u>			
Total acquisition costs of depreciable assets located in Japan in the current fiscal year	>	Total depreciation costs of depreciable assets recorded in the current fiscal year						
× <u>10%</u>								
This rule is not applied for fiscal years where the current year's income is equal to or smaller than the preceding year's income.								
(3) Scope of special tax measures to be restricted	Tax credits under the following measures: <ul style="list-style-type: none"> • Tax credits for R&D costs • Special measures for promotion of future investment in communities • Special measures for promotion of investment in information collaboration 							

[Proposal]

- '10 percent' underlined in '[Current tax law] (2) Conditions (ii)' will be increased to '30 percent' in the table above.
- Special measures for promotion of investment in 5G technology (refer to I. 6) will be added to '[Current tax law] (3) Scope of special tax measures to be restricted' in the table above.

[Definition of key terms]

- Large-sized companies: Companies other than small and medium-sized companies
- Small and medium-sized companies: (i) or (ii) below:
 - (i) Companies with stated capital of JPY100 million or less, except for the following cases:
 - at least 50 percent of the shares are held by one large-scale company (e.g. a company whose stated capital is over JPY100 million); or
 - at least two-thirds of the shares are held by two or more large-scale companies
 - (ii) Companies with no capital whose number of regular employees is 1,000 or less

Note that a company whose 'annual average income' is over JPY1.5 billion is excluded from the definition of small and minimum-sized companies for the purpose of this measure for fiscal years beginning on or after 1 April 2019. 'Annual average income' is measured using income in the fiscal years ended during 3 years before the beginning date of the current fiscal year.

- Salary payments: Salary paid to domestic employees which is deductible in calculating the company's income for each fiscal year
- Domestic employees: Employees (excluding employees who have a special relationship with directors or who have the status of directors) working at offices located in Japan, who are listed in a wage ledger prescribed by the Labor Standards Act
- Continuously employed people: Domestic employees who worked for the full period of the current fiscal year and the full period of the preceding fiscal year
- Total acquisition costs of depreciable assets located in Japan: Total acquisition costs of the depreciable assets (limited to buildings and building improvements, structures, machinery, ships, aircraft, vehicles and delivery equipment, tools, furniture and fixtures, certain intangible fixed assets and certain animals) among assets (except for inventories, securities and deferred assets) in use for business in Japan and acquired in the current fiscal year and owned by a company at the end of the current fiscal year
- Total depreciation costs of depreciable assets recorded in the current fiscal year: Total depreciation costs of depreciable assets owned by a company and recorded as expenses in the books of account (the amount of excess depreciation in the preceding fiscal year is excluded and the amount recognized as a special reserve is included)

4. Tax Credits for Acceleration of Wage Increases and Capital Investment

(1) Special measures for corporation tax

Where a blue-return filing company meets certain conditions such as sufficient pay-raises and increase in domestic capital investment (different conditions are provided for large-sized companies^(*) and small and medium-sized companies, respectively) for fiscal years beginning on or before 31 March 2021, a tax credit based on the amount of the salary increase is allowed.

By virtue of the 2020 tax reform, the conditions for capital investment applied to large-sized companies will be strengthened in order to give more tax impact to the incentive for pay-raises, since capital investment is increasing.

[Current tax law]

Conditions	(a)	[Salary payments ^(*) in the current fiscal year] > [Salary payments in the preceding fiscal year]
	(b)	[Salary payments for continuously employed people ^(*) in the current fiscal year] ≥ [Salary payments for continuously employed people in the preceding fiscal year] x 103%
	(c)	[Total acquisition costs of depreciable assets located in Japan ^(*) in the current fiscal year] ≥ [Total depreciation costs of depreciable assets recorded in the current fiscal year ^(*)] x <u>90%</u>
	(d)	[Education and training costs in the current fiscal year] ≥ [Average education and training costs in the preceding 2 fiscal years] x 120%
Tax credit (Upper limit: corporation tax liability x 20%)	Where conditions (a),(b) and (c) are satisfied but (d) is not satisfied	{ [Salary payments in the current fiscal year] - [Salary payments in the preceding fiscal year] } x 15%
	Where conditions (a),(b),(c) and (d) are satisfied	{ [Salary payments in the current fiscal year] - [Salary payments in the preceding fiscal year] } x 20%

[Proposal]

'90 percent' underlined in '[Current tax law] Conditions (c)' will be increased to '95 percent' in the table above.

^(*) For the definition of these key terms, refer to [Definition of key terms] in '3. Restriction on Eligible Companies for Special Tax Measures'

(2) Special measures for added value component of size-based business tax

Where a company who is subject to size-based business tax meets '[Current tax law] Conditions (a)(b)(c)' in (1) above, a certain amount is creditable against the taxable base of the added value component.

Concerning '[Current tax law] Condition (c)' in (1) above applied to the special measures, the underlined '90 percent' will also be increased to '95 percent' similar to the amendment of (1) above.

5. Entertainment Expenses

Entertainment expenses for each fiscal year in excess of the deductible limit are disallowable under the tax law.

Pursuant to the Proposal, the measure will be extended for 2 years. In addition, the current deductible limit of entertainment expenses for large companies whose stated capital is over JPY10 billion will be eliminated, because the current deductible limit, that is 50 percent of eating and drinking expenses, is not contributing to a significant reduction in cash and bank deposit balances of large companies.

Size of company		Deductible limit	
		Current tax law	Proposal
		Fiscal years beginning on or before 31 March 2020	Fiscal years beginning between 1 April 2020 and 31 March 2022
Small and medium-scale companies ^(*)		Either (1) or (2): (1) JPY8 million (2) 50% of eating and drinking expenses ^(**)	No change
Companies other than Small and medium-scale companies	Stated capital etc. is JPY10 billion or less	50% of eating and drinking expenses	No change
	Stated capital etc. is over JPY10 billion		0

^(*) 'Small and medium-scale companies' for the purpose of this rule are companies whose stated capital is JPY100 million or less at the end of the fiscal year etc., except for the following cases:

- 100 percent of the shares of the company are directly or indirectly held by one large company (a company whose stated capital is JPY500 million or more etc.); or
- 100 percent of the shares of the company are directly or indirectly held by two or more large companies in a 100 percent group.

^(**) Expenditure solely for the company's directors/employees are excluded.

6. Special Measures for Promoting Investment in 5G Technology

In light of the importance of dealing with dissemination and promotion of 5G information and telecommunications infrastructure, new tax measures will be introduced with regard to certain investments in 5G technology established in accordance with an ‘authorized introduction plan’ under the ‘Act on Promotion of Dissemination of Specified Advanced Information and Telecommunications System’ (‘Act’) on the assumption that the Act is enacted.

Eligible companies	Blue-return filing companies which are treated as authorized companies introducing specified advanced information and telecommunications systems under the Act and conducting introduction of certain systems ^(*) .	
Conditions	During the period from the effective date of the Act to 31 March 2022, companies acquire facilities for specified advanced information and telecommunications ^(**) and put them into use for business in Japan etc.	
Tax incentives (i) or (ii))	(i) Special depreciation	Acquisition cost x 30%
	(ii) Tax credit	Acquisition cost x 15% (Upper limit: 20% of the corporation tax liability)

^(*) Introduction of certain systems is the introduction of specified advanced information and telecommunications systems under the Act in accordance with an authorized introduction plan under the Act, and which is confirmed by the competent minister as complying with the criteria of promoting prompt dissemination and contributing to the security of the stability of the supply in particular.

^(**) Facilities for specified advanced information and telecommunications are machinery or other depreciable assets listed in the authorized introduction plan of the company and certain facilities to be used for introduction of certain systems.

In addition, concerning the fixed assets tax on certain depreciable assets newly acquired, special measures will be introduced to reduce the tax base by 50 percent for the first three years until 31 March 2022. (Conditions of eligible companies and eligible assets, which are different from those under the special measures for corporation tax above, will be provided)

7. Business Tax System for Companies Conducting the Supply of Electricity etc.

Business tax for companies conducting the supply of electricity is imposed on revenue. Pursuant to the Proposal, the taxation system for business tax applied to power generation business or retail electricity business among companies conducting an electricity supply business will be revised and the special business tax rate applied to them will be raised as follows:

[Business tax] (Tax rates in the table below indicate standard tax rates)

	Current tax law (Fiscal years beginning on or after 1 October 2019)	Proposal (Fiscal years beginning on or after 1 April 2020)
Ordinary companies with stated capital in excess of JPY100 million	Revenue component 1%	Revenue component 0.75%
		Added value component 0.37%
		Capital component 0.15%
Ordinary companies with stated capital of JPY100 million or less etc.		Revenue component 0.75%
		Income component 1.85%

[Special business tax]

Current tax law (Fiscal years beginning on or after 1 October 2019)	Proposal (Fiscal years beginning on or after 1 April 2020)
Taxable base ^(*) x 30%	Taxable base x 40%

^(*) Amount of revenue component of business tax based on standard tax rate

II. International Taxation

1. New Tax Rules to Prevent Tax Avoidance by Creating Tax Losses from the Transfer of Shares in a Subsidiary following Dividends Received from a Subsidiary

In order to prevent tax avoidance by creating tax losses from the transfer of shares in a subsidiary following dividends received from a subsidiary, it is proposed that the tax book value of shares in the subsidiary will be reduced if a parent company received dividends from the subsidiary which meets certain conditions.

(1) Conditions for the new tax rules to be applied

[Covered dividend amount]

> [Tax book value of shares in a specific relationship subsidiary] x 10%

[Definition of key terms]

Covered dividend amount	Dividend amount, which a company received from a specific relationship subsidiary (including dividend amount received from a specific relationship subsidiary for the period from the beginning date of the fiscal year to the date prior to the dividend receipt date)
Specific relationship subsidiary	Another company which has a specific control relationship on the dividend declaration date
Specific control relationship	Relationship between a person (including its specially-related persons) and another company where a person holds more than 50% of the shares or certain voting rights etc. of another company directly or indirectly

(2) Reduction in tax book value of shares in a specific relationship subsidiary

The amount equivalent to the non-taxable dividend income included in the covered dividend amount

[Definition of key terms]

Amount equivalent to non-taxable dividend income ^(*)	Amount equivalent to non-taxable income under the dividend exclusion rule etc.
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^(*) In case the portion recognized as the amount paid from retained earnings incurred on or after the specific control relationship date (date on which the specific control relationship with a company started) is included in covered dividend amount, the excess amount from the portion included in the covered dividend amount can be treated as an amount equivalent to non-taxable dividend income.

(3) Exempted dividends

The following dividends will be exempted from the new tax rules.

(i)	Covered dividend amount, where 90% or more of the outstanding shares in a specific relationship subsidiary have been owned by ordinary Japanese companies or Japanese resident individuals etc. for the period from the establishment date of a specific relationship subsidiary which is an ordinary Japanese company, to the specific control relationship date
(ii)	In case ' $(a) - (b) \geq (c)$ ', covered dividend amount received from a specific relationship subsidiary (a) Amount of retained earnings of a specific relationship subsidiary as of the beginning date of the fiscal year including the dividend declaration date of a specific relationship subsidiary (b) Total amount of dividends received by shareholders of a specific relationship subsidiary for the period from the beginning date of the fiscal year including the dividend declaration date of a specific relationship subsidiary to the dividend receipt date (c) Amount of retained earnings with certain adjustments as of the beginning date of the fiscal year including the specific control relationship date of a specific relationship subsidiary
(iii)	Dividend amount received on and after the day when 10 years have passed since the specific control relationship date
(iv)	Covered dividend amount, which is JPY20 million or less

Note that additional measures in relation to the above amendments are expected.

2. Controlled Foreign Company (CFC) Regime

The Controlled Foreign Company (CFC) regime was extensively amended under the 2017 tax reform and additional amendments were made under the 2018 and 2019 tax reform.

Under the 2020 tax reform, the following amendments in (1) and (2) are proposed:

(1) Scope of interest income subject to the partial-inclusion rules

Where a CFC that does not fall under the definition of a paper company etc. satisfies all of the economic-activity tests, if the effective tax rate of the CFC is less than 20 percent, the partial-inclusion rules are applied to certain passive income.

Although interest income is treated as passive income, certain interest income such as bank interest earned in the ordinary course of business is excluded from the scope. By virtue of the 2020 tax reform, the following interest income will also be excluded from the scope:

- Interest income of a CFC incurred from the sales of inventories to third parties (that means 'Interest on usance bills') provided that directors or employees of the CFC are engaged in all tasks normally necessary to conduct properly the inventory-sales business and its related business generating the interest on usance bills in the jurisdiction of its head office.

The above amendment will be applied for fiscal years of a CFC beginning on or after 1 April 2020.

The same amendment will also be proposed for the Corporate Inversion Rules.

(2) Adjustment of double taxation on dividends of J-REITs etc.

In case a Toshi Houjin (J-REIT) etc. is subject to the income inclusion rule under the CFC regime, foreign corporation taxes imposed on its CFC's income that is also taxed under the income inclusion rules in Japan will be treated as foreign corporation taxes paid by the J-REIT etc. and will be subject to the adjustment of double taxation on dividends.

The above amendment will be applied for fiscal years of a CFC ending on or after 1 April 2020.

3. Foreign Tax Credits

Certain foreign corporation taxes treated as non-income tax for Japanese corporation tax purposes are excluded from the scope of the foreign tax credit rules which aim to remove international double taxation.

By virtue of the 2020 tax reform, the following foreign corporation taxes will be added to the above scope:

- (i) Foreign corporation taxes imposed on a Japanese company on income of a foreign company that is deemed as income of a Japanese company
- (ii) Foreign corporation taxes imposed on income earned where the payment from a foreign office of a Japanese company to its head office or other parties is disregarded in its foreign office.

The above amendments will be applied for fiscal years beginning on or after 1 April 2021.

4. Earnings Stripping Rules

The earnings stripping rules (ESRs) are to prevent tax avoidance by the payment of excess interest compared to the size of taxable income.

Under the 2019 tax reform, the ESRs were amended drastically to reflect the recommendations of Action 4 (Limiting Base Erosion Involving Interest Deductions and Other Financial Payments) in the final reports of the Base Erosion and Profit Shifting project, which was released by the Organisation for Economic Co-operation and Development in October 2015. The ESRs after the 2019 tax reform (in principle, they will be applied for fiscal years beginning on or after 1 April 2020) will disallow the deduction of net interest payments in excess of 20 percent of adjusted taxable income, except where companies meet exemption thresholds.

By virtue of the 2020 tax reform, the scope of exempted interest payments which are not included in net interest payments will be amended. Specifically, interest paid by a company to the Japanese permanent establishment of a foreign company will be excluded from exempted interest payments, where the transfer of the economic interest of underlying receivables of the permanent establishment to its head office is fixed in advance.

III. Consumption Tax

For the purpose of reducing the administrative burden and leveling of work load, where a company applies a filing extension of a final corporation tax return and also submits an application for a filing extension of a consumption tax return, the filing due date of the consumption tax returns will be extended for 1 month for taxable periods containing the end of each fiscal year after the fiscal year including the date of the submission.

Note that where consumption tax is paid during the extended period, interest tax attributable to the extension period should also be paid.

This amendment will be applied to taxable periods containing the end of fiscal years ending on or after 31 March 2021.

IV. Individual Taxation

1. Reporting Requirement for Overseas Assets

Permanent residents who own overseas assets valued at over JPY50 million as of the end of a calendar year must submit a 'Statement of Overseas Assets' to the competent tax office in order to report their overseas assets by 15 March of the following year.

Under the 2020 tax reform, from the standpoint of encouraging appropriate information disclosure by taxpayers, the following amendments are proposed.

(1) Flexible rules for reporting overseas assets acquired by inheritance

A permanent resident who acquires overseas assets by inheritance/bequest will not be required to include such overseas assets in the 'Statement of Overseas Assets' for the year including the date of commencement of inheritance.

As a result, the due date for submitting the 'Statement of Overseas Assets' for overseas assets acquired by inheritance/bequest will be as follows:

Current tax law	Proposal
15 March of the year following the year that includes the date of commencement of inheritance	15 March of the year 2 years after the year that includes the date of commencement of inheritance

In this case, the reporting obligation of the 'Statement of Overseas Assets' for the year including the date of commencement of inheritance will be judged by excluding the total amount of the overseas assets acquired by inheritance/bequest from the total amount of the overseas assets.

Note that assets by inheritance/bequest to be reported in the 'Statement of Assets/Liabilities' will also be amended in a similar manner.

The above amendments will apply from the 'Statement of Overseas Assets' or the 'Statement of Assets/Liabilities' for 2020.

(2) Amendments to Special Measures for Additional Taxes

Additional taxes (additional tax due to understatement or additional tax due to non-filing) are imposed where a taxpayer understates their income/inherited property in their income tax/inheritance tax returns or fails to file their income tax/inheritance tax returns. The special measures in relation to additional taxes (measure to reduce/increase additional tax) are provided to encourage people to accurately declare their overseas assets.

Under the 2020 tax reform, the special measures for additional taxes will be amended as follows:

Special measures for additional taxes		Current tax law	Proposal
Measure to reduce additional tax	Where the additional tax is derived from overseas assets that have already been properly reported	Reduced by 5%	Reduced by 5%
	The documents for overseas assets ^(*) are not submitted by the taxpayer by the designated date at the request of the tax authorities.		No reduction
Measure to increase additional tax	Where the additional tax is derived from overseas assets that have not been properly reported	Increased by 5%	Increased by 5%
	The documents for overseas assets ^(*) are not submitted by the taxpayer by the designated date at the request of the tax authorities.		Increased by 10%

^(*) Documents for acquisition, operation or disposition of overseas assets to be reported in the ‘Statement of Overseas Assets,’ which can be generally retained or acquired by a person who has overseas assets

(3) Expansion of scope for special measures for additional taxes

Under the current tax law, the application of the measure to increase additional tax is limited to income tax on income derived from overseas assets. The scope of the special measures will be expanded as follows:

	Current tax law	Proposal
Measure to reduce additional tax	<ul style="list-style-type: none"> Income tax on income derived from overseas assets Inheritance tax on overseas assets 	No change
Measure to increase additional tax	<ul style="list-style-type: none"> Income tax on income derived from overseas assets 	<ul style="list-style-type: none"> Income tax on income derived from overseas assets Inheritance tax on overseas assets acquired by inheritance/bequest

In addition, amendments are also proposed to the ‘Statement of Overseas Assets,’ which is used as a basis for judging the application of the special measures for additional taxes relating to inheritance tax on overseas assets acquired by inheritance/bequest etc.

The amendments described in (2) and (3) above will apply to income tax from 2020 or inheritance tax on assets acquired by inheritance/bequest on or after 1 April 2020.

2. Dependent Deduction for Family Members Living Overseas

Regarding the application of the dependent deduction for non-resident family members, it is proposed to amend the age requirement stated below, because of the issue that non-resident family members, who earn a certain level of income overseas, are currently eligible for the dependent deduction since the income used for judging the qualification is Japanese source income.

Current tax law	Proposal
A person older than 15 years as of 31 December	A person older than 15 years but younger than 30 years, or older than 69 years as of 31 December

Note that a person older than 29 years but younger than 70 years who falls under any of the following will be eligible for the dependent deduction.

- A person who becomes a non-resident due to study abroad (required to submit or present documents to prove that a person resides in a foreign country with the status of residence as a student issued by the foreign government)
- Disabled person
- A person who receives a payment of JPY380,000 or more to cover living expenses or education costs in the year from the resident (required to submit or present documents for money transfers under the current tax law to prove that the amount of remittance is JPY380,000 or more)

This amendment will be applied to compensation and public pensions paid on or after 1 January 2023 and income tax from 2023.

3. Special Measures for Aggregation of Profits and Losses of Real Property Income Derived from Second-hand Overseas Buildings

Where a person has real property income derived from second-hand overseas buildings and there is any amount of losses from overseas real properties in the calculation of the amount of their real property income for the year, the amount attributable to depreciation of the second-hand overseas buildings among the amount of losses from overseas real properties will be disregarded for the purpose of the application of the provisions of income tax.

Note that the amount of disregarded depreciation above will not be deducted from acquisition costs of the second-hand overseas buildings in the calculation of capital gains, when the second-hand overseas buildings are transferred.

[Definition of key terms]

- Second-hand overseas buildings

Among buildings overseas which had been used by individuals or put into use for business by companies and which were acquired by a person and used in business operations to generate real property income, buildings for which the calculation method of the useful life applied in the calculation of depreciation included in the necessary expenses in real property income is one of the following methods:

Simplified method	(i) If statutory useful life \leq number of years elapsed (A) Useful life: Statutory useful life \times 20%
	(ii) If statutory useful life $>$ number of years elapsed (A) Useful life: Statutory useful life $-$ (A) $+ 20\% \times$ (A)
Estimating method	Useful life: Estimated remaining useful life (Except for the cases where certain documents are attached to the tax return to prove that the useful life complies with the laws of the state of the second-hand overseas buildings or the estimated remaining useful life is appropriate.)

- The amount of losses from overseas real properties

The amount of losses from renting out second-hand overseas buildings in the calculation of real property income (if there is any amount of real property income derived from other overseas properties, the amount of the remaining balance after being netted against real property income from those overseas properties)

The above amendments will be applied to income tax from 2021.

V. Improvements in Tax Administration Matters

1. Reduction in Special Rate of Interest Tax/Interest on Refunded Tax

In line with actual market interest rates, the special rate of interest tax/interest on refunded tax, etc. will be reduced. In addition, the due date of the notification of the relevant interest information by the Minister of Finance will also be accelerated by 15 days as follows:

		Standard rate	Special rate			
			Current tax law		Proposal	
			When [A] < 7.3%		When [B] < 7.3%	
			Tax rate	(Current tax rates)	Tax rate	(Example) ^(*)
Interest tax		7.3%	[A]	1.6%	[B]	1.1%
Interest on refunded tax		7.3%	[A]	1.6%	[B]	1.1%
Delinquency tax		14.6%	[A] + 7.3%	8.9%	[A] + 7.3%	8.9%
Special measures	2-month period from the day following the due date	7.3%	[A] + 1% (capped at 7.3%)	2.6%	[A] + 1% (capped at 7.3%)	2.6%
	Certain cases where tax payments are postponed	1/2 exemption (7.3%)	[A]	1.6%	[B]	1.1%

[A]: Average Contract Interest Rate on Loans and Discounts + 1%

'Average Contract Interest Rate on Loans and Discounts' is the average of the short-term average contract interest rates on new bank loans for the period from October of the year prior to the previous year to September of the previous year. The rate to be applied for a given year will be notified by the Minister of Finance on or before 15 December of the previous year.

[B]: Average Interest Rate on Loans and Discounts + 0.5%

'Average Interest Rate on Loans and Discounts' is the average of the short-term average contract interest rates on new bank loans for the period from September of the year prior to the previous year to August of the previous year. The rate to be applied for a given year will be notified by the Minister of Finance on or before 30 November of the previous year.

^(*) Rates in this column are based on the assumption that the Average Interest Rate on Loans and Discounts (or Average Contract Interest Rate on Loans and Discounts) is 0.6 percent.

The above proposal will be applicable to special rate of interest tax/interest on refunded tax, etc. corresponding to the periods on or after 1 January 2021.

In addition, similar amendment to rates of interest on refunded tax, etc. will be proposed for local tax purposes.

2. Amendments to Statute of Limitations for Reassessments or Determinations with respect to Taxation on Overseas Transactions

The statute of limitations for reassessments or determinations by the tax authorities under the current tax law is generally as follows:

	Ordinary cases	In cases of deceit or other fraud conducted by taxpayers
Reassessments /determinations	Within 5 years from the day after the statutory filing due date ^(*)	Within 7 years from the day after the statutory filing due date

^(*) 10 years for reassessments with respect to tax losses for corporation tax purposes, 6 years (7 years for fiscal years beginning on or after 1 April 2020) for reassessments/determinations under transfer pricing rules, and other exceptions for subsequent events, etc. are provided.

Under the 2020 tax reform, for the purpose of appropriate taxation based on accurate fact gathering under tax audits and from the standpoint of the encouragement of appropriate information disclosure by taxpayers, reassessments/determinations for the reasons (2) under the conditions (1) below will be conducted by the tax authorities for 3 years from the day of a request for providing information to the other contracting state of the tax treaty, regardless of the above statute of limitations.

(1)	The documents with respect to overseas transactions ^(*) or overseas assets are not submitted by the taxpayer by designated date at the request of the tax authorities. (except for the cases where there are no reasons attributable to taxpayers)
(2)	Where the commissioner of the National Tax Agency requests the other contracting state of the tax treaty to provide information on overseas transactions or overseas assets in (1) above ^(*) , and illegality is found by the tax authorities with respect to the tax base (taxable income, etc.) or the tax amounts declared by the taxpayer based on information obtained from the other contracting state of the tax treaty.

^(*) The sale of assets, purchase of assets, rendering of services and any other transactions (including transactions conducted at the place provided by non-residents or foreign companies) with non-residents or foreign companies

^(*) Except for the cases where the information request to the other contracting state of the tax treaty is made less than 6 months before the expiration date of the statute of limitations, and limited to the cases where the fact of the information request to the other contracting state of the tax treaty is notified to the taxpayer within 3 months from this information request

This amendment will be applicable for national taxes for which the statutory filing due date is on or after 1 April 2020.

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