



TAX UPDATE

TOKYO – PROPOSAL FOR POSTPONEMENT OF AMENDMENTS TO LOCAL TAX RATES

On 18 November 2016, the bills to postpone the consumption tax rate increase were passed by the Japanese Diet. ([KPMG Japan e-Tax News No.124](#), released on 18 November 2016)

Consequently, the consumption tax rate increase from 8 percent to 10 percent was postponed by two and a half years. As local taxation for companies was scheduled to be amended when the consumption tax rate is increased from 8 percent to 10 percent, the timing of the amendments was also postponed by two and a half years as follows:

| | Before amendment | After amendment |
|---------------------------------------------------------------------------------|-------------------------------------------------|---------------------------------------------------|
| Abolishment of special local corporation tax and Increase in business tax rates | Fiscal years beginning on or after 1 April 2017 | Fiscal years beginning on or after 1 October 2019 |
| Increase in local corporation tax rate and Decrease in inhabitant tax rates | Fiscal years beginning on or after 1 April 2017 | Fiscal years beginning on or after 1 October 2019 |

As the above amendments are to change the proportions between two kinds of tax (i.e. special local corporation tax vs. business tax, local corporation tax vs. inhabitant tax), they should cause little impact on the total tax burden of corporate taxpayers except for certain cases.

■ Postponement of Amendments to Local Tax Rates in Tokyo

As a consequence of the aforementioned amendments, on 15 February 2017, the Tokyo Metropolitan Government released a proposal to postpone the timing of the amendments to local tax rates, which will be discussed in the 2017 first ordinary session of the Tokyo Metropolitan Assembly held from 22 February to 30 March 2017.

Under the proposal, the tax rates for a company in Tokyo which is liable for size-based business taxes (broadly, a company whose stated capital is over JPY100 million) are as follows:

Business Tax Rates (income component)

In accordance with the postponement of the abolition of special local corporation tax and the increase in business tax rates, the timing of the amendments to business tax rates in Tokyo will also be postponed from April 2017 to October 2019:

| Fiscal years beginning in the periods indicated in right columns | Current rules | from 1 April 2016 to 31 March 2017 | on or after 1 April 2017 |
|------------------------------------------------------------------|-----------------------------------|-------------------------------------------------|-------------------------------|
| | Proposal | from 1 April 2016 to 30 September 2019 | on or after 1 October 2019 |
| Taxable base (taxable income) | under JPY4 million | 1.995% (0.395%) | 1.995% |
| | from JPY4 million to JPY8 million | 2.835% (0.635%) | 2.835% |
| | over JPY8 million | 3.78% (0.88%) | 3.78% |

- Tax rates shown in parentheses do not include special local corporation tax.
- The reduced tax rates for taxable income of JPY8 million or less are not applicable to companies that have offices in three or more different prefectures.

Inhabitant Tax Rates (on corporation tax)

The timing of increasing the local corporation tax rate and decreasing the inhabitant tax rates will also be postponed by two and a half years. As shown below, the total of such two taxes will remain the same.

| Fiscal years beginning in the periods indicated in right columns | Current rules | from 1 October 2014 to 31 March 2017 | on or after 1 April 2017 |
|------------------------------------------------------------------|---------------|---------------------------------------------------|-------------------------------|
| | Proposal | from 1 October 2014 to 30 September 2019 | on or after 1 October 2019 |
| Inhabitant tax | | 16.3% | 10.4% |
| Local corporation tax | | 4.4% | 10.3% |
| Total | | 20.7% | 20.7% |

Effective Corporate Tax Rates

The effective tax rates indicated below take into account the tax deductibility of special local corporation tax and business tax payments, and are calculated using the tax rates applied to a company in Tokyo whose stated capital is over JPY100 million. As can be seen, although the details of the calculations are different, there is no discrepancy in the effective tax rates.

《Before amendment》

| | Fiscal years beginning in the periods indicated below | | |
|-------------------------------|----------------------------------------------------------|---------------------------------------|-----------------------------|
| | from 1 April 2016 to 31 March 2017 | from 1 April 2017 to 31 March 2018 | on or after 1 April 2018 |
| Corporation tax | 23.4% | 23.4% | 23.2% |
| Business tax | 0.88% | 3.78% | 3.78% |
| Special local corporation tax | 2.899% (0.7% x 414.2%) | — | — |
| Inhabitant tax | 3.814% (23.4% x 16.3%) | 2.434% (23.4% x 10.4%) | 2.413% (23.2% x 10.4%) |
| Local corporation tax | 1.030% (23.4% x 4.4%) | 2.410% (23.4% x 10.3%) | 2.390% (23.2% x 10.3%) |
| Total | 32.023% | 32.024% | 31.783% |
| Effective tax rate | 30.86% | 30.86% | 30.62% |

《Proposal》

| | Fiscal years beginning in the periods indicated below | | |
|-------------------------------|----------------------------------------------------------|----------------------------------------------|-------------------------------|
| | from 1 April 2016 to 31 March 2018 | from 1 April 2018 to 30 September 2019 | on or after 1 October 2019 |
| Corporation tax | 23.4% | 23.2% | 23.2% |
| Business tax | 0.88% | 0.88% | 3.78% |
| Special local corporation tax | 2.899% (0.7% x 414.2%) | 2.899% (0.7% x 414.2%) | — |
| Inhabitant tax | 3.814% (23.4% x 16.3%) | 3.782% (23.2% x 16.3%) | 2.413% (23.2% x 10.4%) |
| Local corporation tax | 1.030% (23.4% x 4.4%) | 1.021% (23.2% x 4.4%) | 2.390% (23.2% x 10.3%) |
| Total | 32.023% | 31.782% | 31.783% |
| Effective tax rate | 30.86% | 30.62% | 30.62% |

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