

KPMG Japan e-Tax News



TAX UPDATE

LDP – Release of Outline of Tax Reform Proposals

On 1 June 2016, Prime Minister Shinzo Abe made an announcement that the increase in the consumption tax rate from 8 percent to 10 percent should be postponed from 1 April 2017 to 1 October 2019 (i.e. by two and a half years). Consequently, it is expected that bills to implement the postponement will be discussed in an extraordinary session of the Japanese Diet starting in the middle of September 2016.

On 2 August 2016, the Liberal Democratic Party of Japan (LDP) released an outline of the proposals to be included in the bills.

We have set out below brief summaries of the main points of the proposals with respect to consumption tax and local taxation for companies.

1. Consumption Tax

Timing of the increase in the consumption tax rate, etc.

The timing of the increase in the consumption tax rate, etc. is proposed to be postponed by two and a half years as follows:

	Before amendment	Proposal
Increase in consumption tax rate from 8% to 10%	1 April 2017	1 October 2019
Introduction of a multiple tax rate system	1 April 2017	1 October 2019
Introduction of an invoicing system	1 April 2021	1 October 2023

Special measures to calculate taxable supplies/purchases

Considering small and medium-sized taxpayers who have difficulty in identifying taxable supplies/purchases by tax rate before the introduction of an invoicing system, special measures have been set up to allow them to use simplified calculation methods. The applicable periods for such special measures will be postponed by two and a half years as well.

Although special measures similar to the above have also been prepared for large taxpayers considering cases where it takes time to make appropriate changes to their operating systems, such measures will be abolished since there should be appropriate time to change such operating systems due to the postponement of the introduction of a multiple tax rate system.

2. Local Taxation for Companies

The timing of changes in the following tax rates is proposed to be postponed by two and a half years as follows:

	Before amendment	Proposal
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 prefectural and municipal 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. prefectural and municipal tax), they should raise little impact on the total tax burden of corporate taxpayers.

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 standard tax rates applied to a company whose stated capital is over JPY100 million. As can be seen, although the details of calculations are different, there is no discrepancy in the effective tax rates.

《Before amendment》

	Fiscal years beginning in the periods indicated below		
	2016/4/1~ 2017/3/31	2017/4/1~ 2018/3/31	2018/4/1~
Corporation tax	23.4%	23.4%	23.2%
Business tax	0.7%	3.6%	3.6%
Special local corporation tax	2.899% (0.7% x 414.2%)	—	—
Prefectural and municipal tax	3.019% (23.4% x 12.9%)	1.638% (23.4% x 7.0%)	1.624% (23.2% x 7.0%)
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	31.048%	31.048%	30.814%
Effective tax rate	29.97%	29.97%	29.74%

《Proposal》

	Fiscal years beginning in the periods indicated below		
	2016/4/1~ 2018/3/31	2018/4/1~ 2019/9/30	2019/10/1~
Corporation tax	23.4%	23.2%	23.2%
Business tax	0.7%	0.7%	3.6%
Special local corporation tax	2.899% (0.7% x 414.2%)	2.899% (0.7% x 414.2%)	—
Prefectural and municipal tax	3.019% (23.4% x 12.9%)	2.993% (23.2% x 12.9%)	1.624% (23.2% x 7.0%)
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	31.048%	30.813%	30.814%
Effective tax rate	29.97%	29.74%	29.74%

Note that business tax rates and prefectural and municipal tax rates actually applied to companies will be determined by local governments after the passage of the bills to amend tax laws.

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