

Proposal for FY**2024** Tax Reform

—Toward Achieving Sustained Growth and Distribution—

Summary

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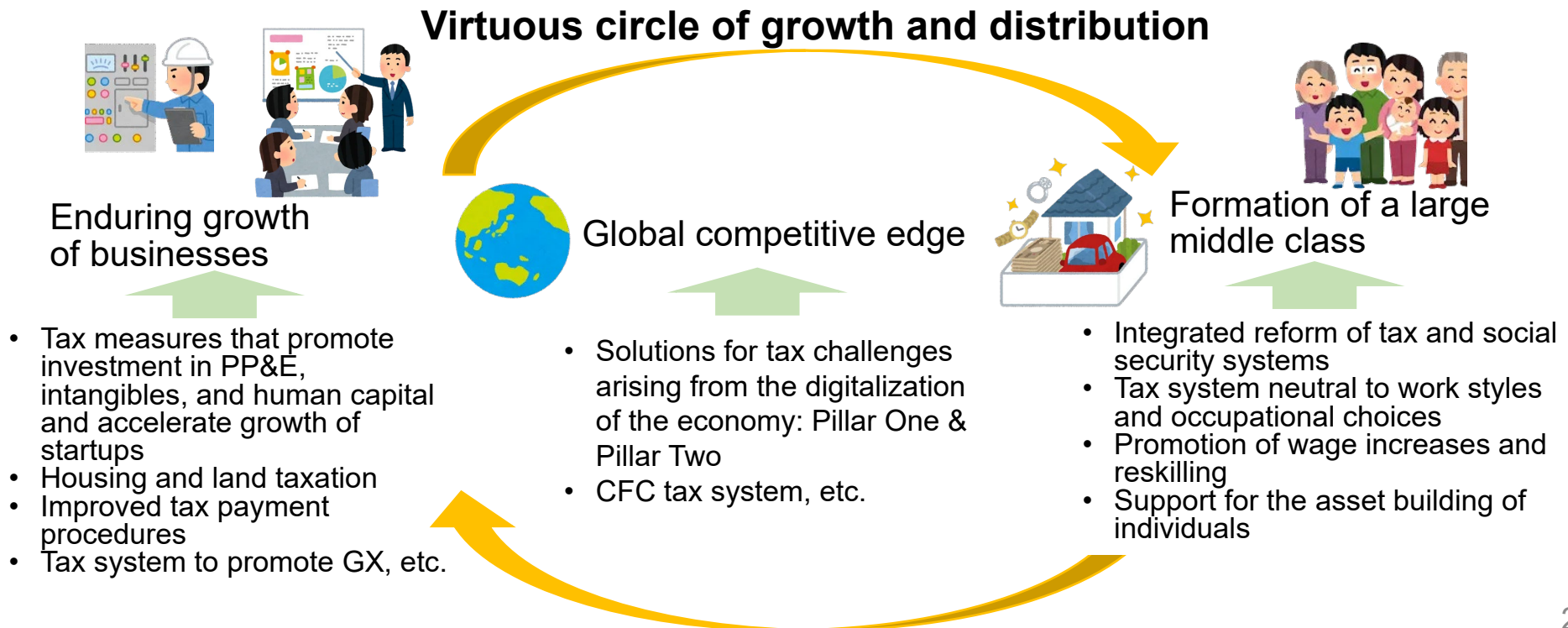
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I. Introduction

- The government should be bold in establishing tax rules that prompt firms to invest in PP&E, intangible assets, and human capital, ensuring that the economy can recover from long-term stagnation and embark on a stable growth trajectory.
- Now is the time to initiate a full-scale study on an integrated reform of tax and social security systems to help alleviate people's anxiety about the future; and to establish a tax system that is neutral to work styles and occupational choices, including medium- and long-term challenges, aiming for the achievement of sustainable distribution and the formation of a large middle class.
- The design of international taxation systems must reduce the administrative burden on businesses and to ensure the predictability of practice. The administration of the Controlled Foreign Company (CFC) tax system must also be streamlined.



1. Corporate tax system

(1) Tax measures for enhancing defense capability

- ✓ Financial resources for enhancing defense capability should be borne broadly by all individuals and corporations.
- ✓ Careful consideration should be given to the timing and level of the corporate tax increase given the current need for businesses to make domestic investments and increase wages.
- ✓ Robust tax measures are essential to maintain the virtuous cycle of growth and distribution and to promote investment without dampening business investment sentiment, even with an increased corporate tax burden being proposed.

(2) Tax systems to stimulate domestic investment

- ✓ Establishment of a tax incentive to promote investment in domestic production of strategic goods, etc. especially in the GX area
(a long-term incentive covering the entire lifecycle of business investment with a high deduction rate and upper limit; and systems for long-term carry-over and sale of tax credits)
- ✓ Extension and enhancement of the tax system to promote investments in carbon neutrality (including reduction of depreciable asset tax)
- ✓ Creation of the innovation box tax system
- ✓ Extension and enhancement of the tax system to promote wage increases
- ✓ Review of tax system relating to stock-based compensation
- ✓ Response to the revised lease accounting standard

(3) Tax systems to accelerate growth of startups and improve corporate value through reorganization

- ✓ Enhancement of stock option taxation (elimination or enhancement of upper limit on the exercise price, etc.)
- ✓ Extension of the open innovation promotion tax system
- ✓ Making the partial spin-off tax system permanent
- ✓ Enhancement of the angel tax system, etc.
- ✓ Extension and enhancement of the program to reduce registration and license taxes relating to the Act on Strengthening Industrial Competitiveness
- ✓ Revision of year-end fair value taxation on crypto assets held by third parties

2. Others

(1) Housing and land tax systems

- ✓ Retention of borrowing limits for mortgage tax break
- ✓ Extension of burden adjustment measures for land-related property tax

(2) Other special taxation measures

- ✓ Extension of special provisions pertaining to reserve for losses from overseas investments, international vessels and aircraft
- ✓ Extension and enhancement of tax measures for regional development and growth of mid-tier businesses and SMEs

(3) Local taxes

- ✓ Targeted revision of the pro-forma standard taxation

(4) Improved tax payment procedures

- ✓ Digitalization of national and local taxes
(more convenient e-Tax/eLTAX, digitalization of tax returns, applications and notices)
- ✓ Digitalization of tax investigations
- ✓ Promotion of tax corporate governance
- ✓ Digitalization of payments to local governments other than local tax

1. Tax systems to form a large middle class (i)

(1) Integrated reform of tax and social security systems

- ✓ Social security systems (health care, nursing care, pensions, and measures to counter a declining birthrate) are safety nets that support the livelihood and security of the people; and contribute to increased private consumption by eliminating uncertainty about the future.
- ✓ In order to create a large middle class, it is imperative to advance reform of the tax and social security systems in an integrated manner and ensure they are sustainable.
- ✓ A balanced approach to allocate burden should be considered by combining social insurance premiums with various taxes.
 - From a medium- to long-term perspective, raising the consumption tax is a viable option. However, the degree and timing of the increase should be determined based on the economic conditions.
 - Necessary steps should be considered bearing in mind that the purpose of individual income tax is to achieve redistribution of income.
 - Consideration should be given to how asset taxation should be and the amount of social insurance premiums corresponding to the assets held by the insured.

1. Tax systems to form a large middle class (ii)

(2) Tax systems neutral to work styles and occupational choices

- ✓ Given diversifying work styles and labor mobility, it is crucial to construct an income tax system that is neutral to individual work styles and occupational choices.
- ✓ Retirement income deductions should be reviewed with due attention to the impact of changes in the system. A comprehensive examination on tax systems should be conducted, covering taxation on private pension plans, taking into account the next revision of the pension system.

(3) Promotion of wage increases and reskilling

- ✓ Extension and enhancement of the tax system to promote wage increases

(4) Support for asset building of individuals

- ✓ Active use of NISA
- ✓ Study on the corporate pension taxation (enhancement of defined contribution pension plans, etc.)
- ✓ Further convergence of financial income taxes
- ✓ Enhancement of the life insurance premium deduction system

2. Tax systems to promote Green Transformation (GX) /

3. Automobile-related taxes

2. Tax systems to promote Green Transformation (GX)

- ✓ The specific institutional design of the “Growth-Oriented Carbon Pricing Scheme” should be advanced in a way that maintains and strengthens industrial competitiveness.
- ✓ Review of energy-related taxes
 - Review of existing tax for climate challenge mitigation
 - Making the tax exemption for raw material use permanent ...etc.
- ✓ Support for pro-GX enterprises
 - Extension and enhancement of the tax system to promote investments in carbon neutrality
 - Tax measures for environmentally friendly products and services developed with new technologies

3. Automobile-related taxes

- ✓ In light of major changes in the social and political environment affecting automobiles, such as the achievement of 2050 carbon neutrality, the development of CASE, and the arrival of a new mobility society, discussions should be held on the ideal form of automobile-related taxes from a mid- to long-term perspective.

1. Smooth implementation of Two Pillar Solutions to address tax challenges arising from the digitalisation of the economy

- ✓ We welcome the announcement of the “Outcome Statement” by the OECD/Inclusive Framework and greatly value the extension of the agreement to refrain from imposing a digital services tax in respective countries.

(1) Pillar One

- ✓ We appreciate the introduction of the autonomous domestic business exemption in Amount A.
- ✓ For Amount A, it is essential to introduce simplification measures to reduce practical burdens. It is important to simplify the revenue sourcing rule; adopt an income exemption method; ensure a simple way of identifying paying entities; and establish an effective dispute prevention and resolution mechanism.
- ✓ As to Amount B, the scope, pricing matrix, timing of implementation, etc. should be considered in line with the objective of simplifying and streamlining transfer pricing rules and contributing to the prevention and resolution of disputes.

(2) Pillar Two

- ✓ With regard to Pillar two, we value the segmented dissemination approach in the GloBE Information Return and the approval of jurisdiction-by-jurisdiction description as a transitional measure.
- ✓ A peer review system needs to be established in a timely manner to ensure that the QDMTT Safe Harbor functions effectively.

(3) Others

- ✓ IF Member states should continue to adhere to the “confidentiality, consistency, and appropriate use” prerequisites for accessing and using the CbCR data. Respective member states should refrain from introducing their own standards.

2. Pillar Two legislation /

3. Review of the Controlled Foreign Corporation tax system

2. Pillar Two legislation

- ✓ Introduction of a safe harbor rule for QDMTT without fail
- ✓ Adoption of measures that contribute to simplification (e.g. a permanent safe harbor rule)

3. Review of the Controlled Foreign Corporation tax system

- ✓ Review of the timing of inclusion where fiscal years differ between foreign subsidiaries and the Japanese parent entities
- ✓ Review of the system of the unrelated party tests (e.g. special exemption of logistics/distribution centers) and the management and control tests
- ✓ Information sharing in Pillar two and the J-CFC tax system for the purpose of simplified ETR calculation
- ✓ Narrowing down of the scope of application and simplification of the method to calculate US state taxes
- ✓ Reduction of excessive inclusion and administrative burden through review of economic activity tests and scope of inclusion