Keidanren
Policy & Action

Proposal for Fiscal 2023 Tax Reform
（Summary）

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KEIDANREN（Japan Business Federation）

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Ⅰ. Introduction

- Fiscal 2023 tax reform should aim to encourage investment in “**People**”, “**science, technology, and innovation**”, “**startups**”, and “**Green Transformation （hereinafter GX） and Digital Transformation （hereinafter DX）**”, each of which contributes to maintaining and strengthening corporate value creation and competitiveness. In addition, a "**virtuous cycle of growth and distribution**" and a "**sustainable capitalism**” should be established.
- Keidanren continues to engage in the design of an international taxation framework, including the digital taxation system, from the perspective of reducing administrative burdens on companies. At the same time, the Japanese Controlled Foreign Companies (JCFC) taxation system must be simplified.
- It is essential to hold a broad discussion on the ideal tax system to promote a "virtuous circle of growth and distribution" in Japan, while considering increased tax burdens and administrative burdens accompanied by major changes in the international taxation framework.

<Domestic Taxation>

Strengthen the ability to create innovation by driving the engine of growth.

[Top Priorities]
- ✓ Research and Development tax credit incentives.
- ✓ Tax incentives for start-ups.
- ✓ Tax incentives for capital investment.
- ✓ Digitalization and simplification of tax procedures.
- ✓ Land and housing taxation.
- ✓ Automobile Taxes.
- ✓ Tax measures to double asset-based income.

<International Taxation>

Establish an international taxation framework tha does not hinder global activity.

[Top Priorities]
- ✓ Smooth implementation of Pillar 1 and Pillar 2.
- ✓ Revision of the existing JCFC tax system.

II. Tax measures to drive the engine of growth

1-1. Corporate Taxes

➢ Keidanren will encourage **the momentum of wage increases and contribute to realization of a "virtuous cycle of growth and distribution”**.
At the same time, we will actively promote "**investment for the future**" while keeping in mind the ripple effects on the domestic economy.

(1) Expansion and Extension of the Research and Development tax credit incentives

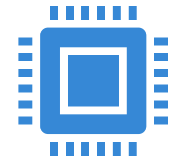
- ✓ Extension of provisional tax credit rate and maximum tax credit cap (especially, for the general type).
- ✓ Revision of definitions for "start-ups" within the OI (Open Innovation) type.
- ✓ Revision of the scope of R&D expenses in line with changes in business models (e.g., expenses related to service development, humanities and social sciences, and in-house software).

(2) Tax measures for start-ups

- ✓ Expansion of tax measures for stock option (e.g., extension of exercise period).
- ✓ Tax measures on open innovation activities (addition of acquisition of outstanding shares at the time of M&A).
- ✓ Research and Development tax credit incentives (aforementioned)
- ✓ Expansion of tax measures for spin-offs where a company continues to retain a portion of its equity.
- ✓ Consideration of tax measures for the “web3 era” (e.g., review of period-end fair value taxation of crypto assets issued and held by the same company).

1-2. Corporate Taxes

(3) Tax measures for investment expansion



- ✓ Extend existing tax measures to promote DX and revise the requirements and targets (e.g., making investment in essential human resources for DX eligible).
- ✓ Further tax measures to enhance GX.
- ✓ Property tax on depreciable assets should essentially be abolished.
- ✓ Extension and expansion of special provisions for replacement of business assets related to long-term land holdings.
- ✓ Extension of tax measures to promote urban revitalization.

(4) Digitalization and Simplification of Tax Procedures

<National taxation>

- ✓ Expansion of e-Tax functions.
- ✓ Digitalization of tax audits.
- ✓ Necessary actions related to The Act on Special Provisions concerning Preservation Methods for Books and Documents Related to National Tax Prepared by Means of Computers.
- ✓ Digitization of income tax procedures.

<Local taxation>

- ✓ Online notification of local taxes (especially fixed asset tax).
- ✓ Digitization of procedures for tax returns and applications.

2． Tax measures concerning Land, Urban and Housing etc.

(1) Taxation related to Land

- ✓ Extension and expansion of special provisions for replacement of business assets related to long-term land holdings (aforementioned).
- ✓ Property tax on land needs to be reconsidered upon economic conditions. In addition, measures should be taken from a medium- to long-term perspective to optimize the burden, etc.

(2) Urban and Housing Taxation

- ✓ Extension of the Urban Revitalization Taxation System (aforementioned)
- ✓ Extension of special measures for real estate acquisition tax on purchase and resale of houses, etc.

[Other major items]

Extension of expired special measures concerning taxation.

- ✓ Marine transportation-related taxation (tonnage tax, special depreciation system for ocean-going vessels, and special replacement of vessels).
- ✓ Tax measures to build an economy and society resilient to natural disasters.
- ✓ Tax measures that contribute to maintaining and ensuring stable air transportation.

[Local Taxes]

- ✓ Simplification of pro-forma standard taxation of corporate enterprise tax
- ✓ Revision of tax base of corporate enterprise tax for electricity and gas supply industries.

1. Automobile-Related Taxes / 2. Tax measures for GX

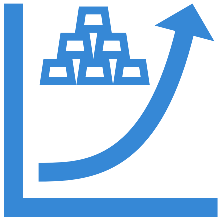
1. Automobile Related Taxes

- ✓ National discussion and examination of the ideal medium- to long-term taxation system should be promoted beyond the automobile industry. Complicated automobile-related taxes should be simplified to reduce the excessive burden on users and aim for a system that contributes to CO2 emission reduction.
- ✓ As a first step, it is essential to realize the following in the FY2023 tax reform:
    - Expansion and extension of the Tonnage Tax Reductions/Exemptions for Eco-Friendly Vehicles.
    - Expansion and extension of Special Automobile Tax Reductions (including mini-vehicles).
    - Abolition of the Environmental Performance-Based Tax (including mini-vehicles).

2. Tax measures for GX

- ✓ In order to achieve "carbon neutrality (CN) by 2050," tax measures should first be implemented to support and accelerate various R&D investments and capital investments in a focused manner.
- ✓ Introducing a new carbon tax or raising the tax rate of the existing global warming tax is not reasonable for now.
- ✓ Comprehensive consideration should be given to the "GX Economy Transition Bonds (tentative name)," including the appropriate redemption period, while taking into account various factors such as their use, beneficiaries, burden bearers, and economic impacts.
- ✓ The tax exemption for raw material use should continue to be considered.

3. Taxation System for Realizing a Virtuous Circle of Growth and Distribution



(1) Tax measures to double asset-based incomes

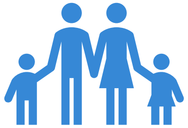
✓ It is crucial to fundamentally expand existing NISAs in order to create a "broad middle class". The following revisions should be made with the necessary reorganization:
- Making the expiration date permanent.
- Making the tax-exempt holding period indefinite.
- Increasing the tax-exempt investment limit.
- Expansion of eligible products.

(2) Pension Taxation

✓ Special corporate tax on retirement pension funds should be abolished as soon as possible. At a minimum, the taxation freeze should be extended.

(3) Tax measures to facilitate labor mobility and improve productivity

✓ The deduction for retirement income should be reviewed.



(4) Other financial, securities, and insurance taxation

✓ Further unification of financial income taxation.

✓ Extension of tax exemption for lump-sum gifts of education, marriage, and child-rearing funds.

✓ Revision of inheritance tax assessment of listed stocks.

✓ Expansion of deduction for life insurance premiums.

1. Toward smooth implementation of the Pillar 1 and 2

- In designing both the Pillar 1 and 2 rules, it is essential to **reduce practical complexity to the maximum extent possible and to ensure sufficient predictability**.

(1) Pillar 1

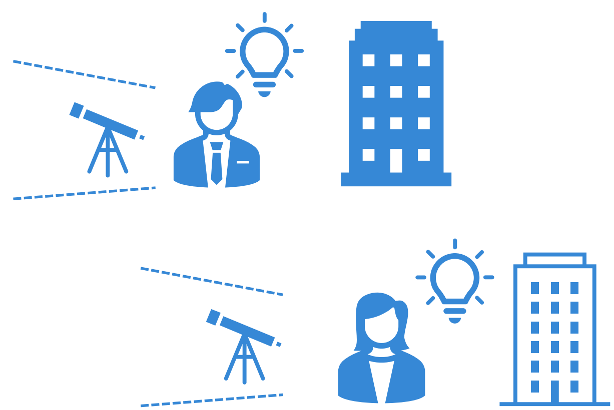
✓ Based on Keidanren's opinion, the practical burden on Covered MNE Groups should be reduced.

(2) Pillar 2

✓ To simplify the practical burden on companies, domestic legislation should be enacted after ensuring the introduction of the safe harbors.

✓ The domestic legislation of the GloBE rules should be implemented after sufficient time is given to MNE groups to prepare for the establishment of systems and practical measures including accounting.

✓ Tax measures to encourage the accumulation of intangible assets such as data should continue to be considered.



2. Review of the JCFC taxation system with the introduction of the Pillar 2

- **The administrative burden related to the existing JCFC taxation system should be significantly reduced and the excessive income inclusion should be optimized** toward the domestic legislation of the Pillar 2.
- **The JCFC taxation system should be reviewed based on a hybrid of the entity approach and the transactional approach, on the premise that the threshold of effective tax rate is maintained at 20%**.

(1) Simplification by meaningfully narrowing the scope of JCFC

- ✓ The effective tax rate should be consolidated to the 20% standard.
- ✓ CFCs can be excluded from the taxation system by an appropriate indicator(s). (For example, for the Pillar 2 covered MNE Groups, a CFC with pre-tax profits of less than 100 million JPY, which cannot be large in size among the entire group, should be excluded from the scope.)

(2) Fundamental revision of the economic activity tests

- ✓ (e.g., exclusion of copyright provision from the business purpose test, further revision of the unrelated party test for wholesale business, etc.)

(3) Review of the scope of income inclusion

- ✓ The shareholding ratio requirement for dividends should be lowered and the determination of the shareholding ratio for the group as a whole, including indirect investments, should be allowed.
- ✓ Partial inclusion of abnormal income should essentially be abolished, and at least the gain on debt forgiveness at the time of liquidation should be excluded, etc.

(4) Other measures to reduce administrative burden

- ✓ The timing of inclusion should be reviewed in the direction of moving it backward.
- ✓ Consideration should be given to the utilization of elements of the Pillar 2.
- ✓ The requirement to attach various documents should be changed to a preservation requirement.