

# Current Policies to Make Japan, Asia's Center for Business

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Trade and Investment Facilitation Division  
Trade and Economic Cooperation Bureau  
Ministry of Economy, Trade and Industry

# Overview of the policies to make Japan, Asia's center for business

> To motivate global companies to locate in Japan, the government will create a favorable environment for businesses through cross-cutting efforts and implement a policy package consisting of incentives, such as location subsidies and corporate tax cuts.

Strategic attraction

> Discovery of high-value-added locations with the help of experts in finance, tax and accounting and international management strategy  
[Survey Project for Asia Business Location Promotion]

Location subsidies

> **Initial investment subsidies** for companies locating to areas with large potential for economic benefits  
[Supplementary budget for Asia Business Location Promotion Project Subsidy: ¥2 billion]

Corporate tax

> 20% deduction from income for certified companies for five years (**Certified companies' tax rate reduced to 28.5%**, when including corporate tax cuts.)

*\*May be lowered to 20.4%, if local government decides to apply tax exemption.*

Personal income tax

> Tax deferment until transfer for share warrants given to a certified company's executives from its foreign parent company by including them in the scope of stock option tax system

Patent fees

> Patent fee reduction/exemption for certified R&D sites

Visa status

> Expedited visa examination for foreigners expected to work for certified companies (about ten days, compared with the normal examination period of one month)

Living environment

> Attractive social and living environment for superior foreign talent, enhancement of the "Regulatory Reform 100 to Revitalize Japan," promotion of the use of English, etc.

Only certified firms

# Overview of the tax incentive program to make Japan Asia's center for business

- > To motivate global companies to locate in Japan, the government will provide very limited certified companies with bold incentives in corporate and personal income taxes, which are particularly influential on location decisions.
- > The government will also provide more taxpayer-friendly systems and eliminate double taxation for all corporations, including existing Japanese ones, in order to comprehensively improve the business environment in Japan.

## FY 2011 tax reform

### Exceptions in favor of certified companies (new)

#### Corporate tax

- 20% deduction from income for certified companies for five years  
20% deduction for newly established Japanese operations of global companies for five years from the date of certification

#### Personal income tax

- Tax deferment for stock options held by individuals at certified companies  
Inclusion of share warrants given to a certified company's executives from its foreign parent company in the scope of stock option tax system

#### Taxpayer-friendly systems

- Improved tax cost predictability  
Improvement of the advance tax ruling system to (1) set up a system to verbally provide information within about one month and (2) extend the non-disclosure period for the answers from 180 days to one year

#### No double taxation

- Eliminate the risk of double taxation on the income of foreign companies' officers  
Reform of the foreign tax credit system to exclude the income of foreign companies' officers, which is taxable by home country under tax convention, from income subject to domestic withholding tax

# Tax incentive programs to make Japan Asia's center for business and to establish special international strategic zones

<Common terms of incentives>

> Certified for three years

> 20% deduction from income for five years from the date of certification

--> **Certified companies' final effective tax rate reduced to 28.5%**, when including 5% corporate tax cut\*.

**May be lowered down to 20.4%**, if local government decides to apply tax exemption.

(For reference, the average tax rate in Asian countries is 25-26%)

<To attract foreign investments>

<To concentrate specific businesses in the special zone>

	Tax incentive to make Japan Asia's center for business	Tax incentive for special zones (special international strategic zones)		
Aim	Provide bold incentives dedicated to global companies	Improve institutional infrastructure to create internationally competitive zones		
Measures	Deduction from income	Tax breaks to promote capital investment		
	<b>Deduction from income</b> *20% for five years	<b>Deduction from income</b> *20% for five years *Only in limited zones	<b>Tax breaks for investment</b> *3 years *15% for machinery, 8% for buildings *Up to 20% break, carried forward one year	<b>Special depreciation</b> *3 years *50% for machinery, 25% for buildings
Certification requirements	(1) <u>Operations for R&amp;D or international headquarters</u> (2) <u>New corporations set up by foreign companies</u> (3) Provision of certain levels of employment and investment	(1) <u>Located in the international strategic zone</u> (2) Engaged in operations meeting the focus on the special zone (3) Engaged in operations <u>taking advantage of deregulation in the special zone</u> <only for deduction from income> (4) (For existing corporation) Certain levels of capital investment in the zone by the headquarters <only for deduction from income>		
Certified by	Government (competent minister)	Authorized local government		

# Expected effects of the tax incentive program to make Japan Asia's center for business and requirements to ensure them

Support aims		Concept of requirements to ensure target effects	
◆For global companies		(1) A company whose affiliated companies operate in two or more countries *Affiliated companies refer to subsidiaries and second-generation subsidiaries owned more than 50% by a global parent company.	
◆For high-value-added operations		R&D center	Headquarters
	◆Operations	(3) A company shall be solely engaged in international supervision or R&D activities.	
	◆Create high-quality employment	(5)-1. Shall employ at least ten people by the end of the first year, maintain their employment for five years and additionally employ at least 15 people by the end of the fifth year.  (7) Shall spend at least ¥100 million on R&D annually.	(5)-2. Shall employ at least ten people by the end of the first year, maintain their employment for five years and additionally employ at least eight people by the end of the fifth year.  (6) Shall pay at least ¥80 million in total salaries in the first year and at least ¥150 million in the fifth year.
	◆Have ripple effects, e.g., increased investments in Japan	(7) Shall spend at least ¥100 million on R&D annually (same as above).  (9) Shall send at least one employee of an affiliated company (outside Japan) to the site to stay for six month or longer during the business plan period. (to attract researchers familiar with advanced technologies not available at Japanese companies)	(8) Shall be capitalized at no less than ¥100 million.  (10) Shall have plans to make an additional ¥500 million or more investment (for capital increase) in total in the given headquarters, domestic companies it supervises and existing corporations in Japan from affiliated companies (outside Japan) during the plan period.
	◆Bring management resources not available in Japan	(11) All the employees shall be residents of Japan (except the person in (9)). (12) Where any foreigners are employed, all of them shall be superior human resources.	
		(4) No affiliated company shall be currently engaged in R&D or international headquarters operations in Japan.	
◆Attracting the above		(2) Shall be a newly established corporation. (13) Shall be operations whose commencement was apparently decided on or after the enforcement date of this law.	

### III. Enhancing policy-oriented tax measures to achieve economic growth and secure employment

New

#### 1. Establishment of “Asian Business Center Promotion Tax Incentive Program” (income tax, corporate tax, individual/corporate inhabitant tax, enterprise tax)

> To attract global companies' R&D sites and regional headquarters, the government will establish a bold tax incentive program comparable to those in other Asian countries, based on company certification and other schemes.

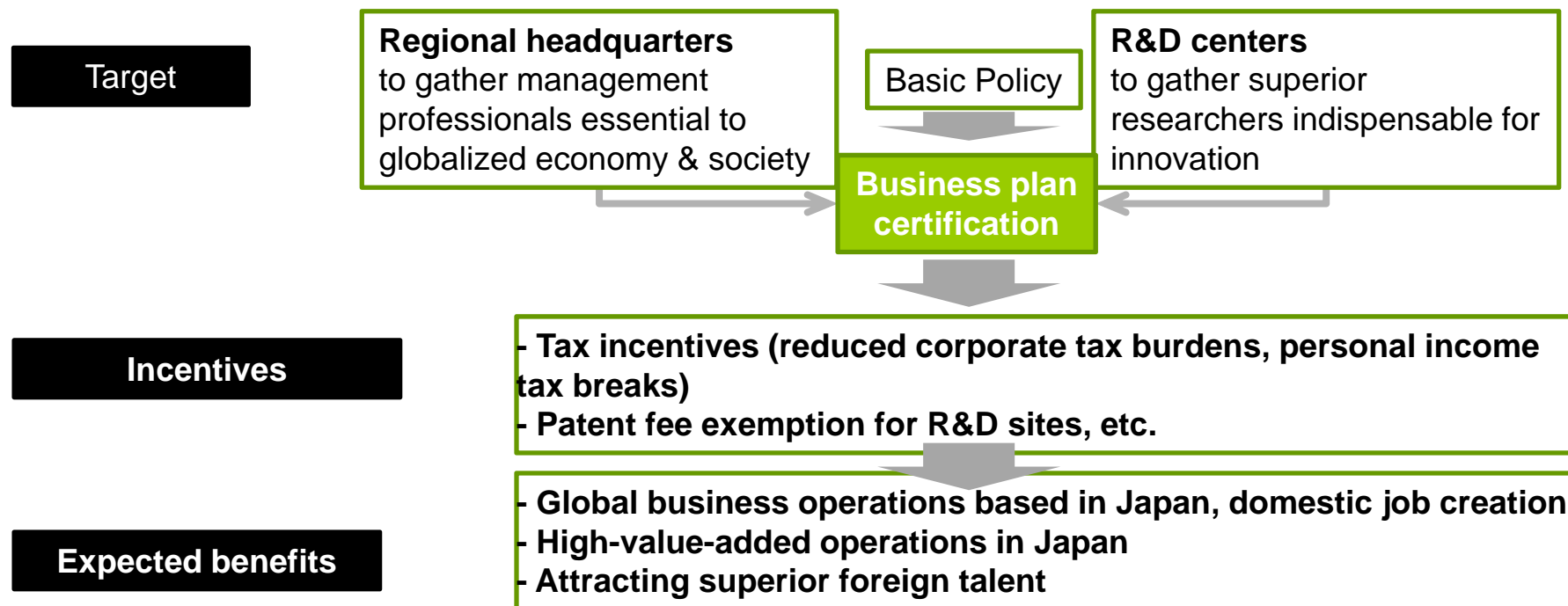
##### Reform overview

[Certification period] 3 years (until the end of FY 2013)

> To motivate global companies to establish their R&D centers and regional headquarters in Japan, the government will take aggressive tax incentive measures based on company certification under the initiative to make Japan, Asia's center for business.

(1) If requirements concerning job creation and investment enhancement are met, a global company's R&D center or regional headquarters is granted a 20% deduction from income for 5 years from the date of certification. This will reduce a certified company's tax rate to 28.5%, when including corporate tax cuts.

(2) The government provides a preferential measure to subject all stock options given to a certified company's executives by its overseas parent company to capital gain tax (20%).



# Overview of location subsidies

Asia Business Location Promotion Project Subsidy

Supplementary budget: ¥2 billion  
Also requested under FY 2011 budget

## Project scheme

Japanese government



Strategic attraction of businesses [Survey Project for Asia Business Location Promotion]

[Target]

Internationally operating global companies

- > Regional headquarters to gather **human resources excelling** in management, engineering, etc.
- > R&D centers with the potential to leverage Japan's manufacturing capacity **for practical business**

Call for application  
Release of details  
slated in  
early 2011

### Third-party review

Select recipients based on potential economic benefits to Japan  
<Eligibility/review criteria>  
- Operations in at least 2 countries  
- Engaged in business for at least 3 years  
- Added value of planned operations

Decision

### Initial investment subsidies for firms locating in Japan

Aggressive incentive comparable to those of other countries

- > Subsidies for the cost of construction and equipment for the site
- > Up to 50% subsidy rate
- > Up to ¥1 billion per company

## Expected benefits

- Global business operations based in Japan
- Concentration of high-value-added functions in Japan
- Attraction of superior talent
- Creation of domestic employment



# (Reference) Weakened Japan's location competitiveness

- > A survey of companies mainly operating outside Japan revealed that Japan is less competitive as an Asian business center in all aspects than it was in the same survey two years before.
- > Japan even lost the top position in competitiveness as a location for Asian headquarters and R&D center, which are aspects Japan has traditionally had an edge in, showing Japan's weaker presence in Asia.

<Most attractive Asian country/region in each aspect>  
(Data only for top six countries; those ranked No. 1 and No. 2 are highlighted.)

FY 2007 survey						
	Japan	China	India	Singapore	South Korea	Hong Kong
Asian headquarters	①23%	18%	8%	16%	4%	②20%
Production center	3%	①62%	②12%	2%	5%	5%
R&D center	①30%	②25%	16%	9%	4%	6%
Back office	②15%	①24%	②15%	12%	5%	②15%
Logistics center	11%	①41%	8%	9%	7%	②13%
Finance center	—	—	—	—	—	—
Marketing center	—	—	—	—	—	—

\* Respondents chose one country/region for each function.

\* Percentage figures are calculated based on 209 respondents (including 51 companies already operating in Japan), excluding those having returned no reply.  
(78 firms in Europe, 74 in North America, 57 in Asia)

FY 2009 survey						
	Japan	China	India	Singapore	South Korea	Hong Kong
Asian headquarters	10%	①42%	10%	②16%	2%	13%
Production center	1%	①64%	②14%	2%	2%	2%
R&D center	②21%	①33%	20%	8%	4%	2%
Back office	8%	①39%	②19%	15%	2%	9%
Logistics center	3%	①63%	8%	②11%	2%	6%
Finance center	10%	①30%	9%	21%	4%	②23%
Marketing center	7%	①50%	7%	11%	4%	②13%

\* Respondents chose one country/region for each function.

\* Percentage figures are calculated based on 180 respondents (including 30 companies already operating in Japan), excluding those having returned no reply and those having chosen no country. (60 firms in Europe, 60 in North America, 60 in Asia)