

Summary of the Act on Partially Amending the Act on Strengthening Industrial Competitiveness and Other Acts* to Create New Business and Encourage Investment in Industries

*The Act on Strengthening Industrial Competitiveness, the Limited Partnership Act for Investment, the Act on the National Center for Industrial Property Information and Training, Independent Administrative Agency, and the Act on the New Energy and Industrial Technology Development Organization

Background

- ✓ **A “turning point” is emerging the Japanese economy, where the highest levels of wage increase and domestic investment in 30 years**, driven by changes in the macroeconomic environment, including the increase in geopolitical risks and the implementation of the “New Direction of Economic and Industrial Policies”, that provides large-scale, long-term, and consistent support to addressing issues that all humankind and society confront, including climate change and digitalization.
- ✓ Japan’s recent inflation has been centered on rising import prices, but it is important to **strengthen the supply capacity through domestic investment and put the Japanese economy on a growth trajectory so that such dynamism can be sustained, resulting in inflation accompanied by a wage increase and economic revitalization**. To this end, Japan needs to achieve a structural reform of its economy **through strengthened initiatives for the New Directions, including “expanding strategic domestic investment” and “promoting innovation and the reorganization of industries in order to expand domestic investment”**.

Outline of the Act

1. The bill is to stipulate provisions for **large-scale and long-term tax deductions for investment and production in strategic areas** and **tax deductions for strengthening Japan’s competitiveness in locations used as research and development bases**, both of which are initiatives for **expanding strategic domestic investment**.
2. The bill is to stipulate provisions for **measures for intensively supporting Leading Medium Enterprises and startups**, which are the driving force of the Japanese economy, as initiatives for **promoting innovation and replacement of industries that contribute to expanding domestic investment**.

1. Expanding strategic domestic investment

- [i] **Defining products with particular significance to gain domestic and international markets** amidst international competition (i.e., clean vehicles, green steel, green chemicals, sustainable aviation fuels (SAF), and semiconductors); and taking the following measures provided that **the competent minister approves the plans** submitted by the companies **for production and sales of the aforementioned products**:
- **Tax deductions that are proportionate to domestic production and sales in the strategic areas**
 - Financial support for large-scale and long-term financing offered by the Japan Finance Corporation (two-step loan)

- [ii] Taking the following measures provided that **the government confirms that companies are utilizing IP to a certain level** pursuant to **the provisions to be newly established by the government for its investigation of such companies’ current utilization of IP and other related activities**:

- **Tax deductions for innovation bases** (innovation box tax regime)
 - Eligible IP: Patent right granted to a product or copyright granted to AI-related software for which a company has conducted R&D and created the product in Japan
 - Eligible income: Income from the licensing of target IP and income from the transfer thereof
 - Income deductions by 30% (reducing 29.74% on the basis of the effective tax rates for companies to the equivalent of around 20%)

2. Promoting innovation and replacement of industries that contribute to expanding domestic investment

(1) Measures related to Leading Medium Enterprises

- [iii] Defining companies that have 2,000 or fewer full-time employees, excluding SMEs, as **“Leading Medium Enterprises”** and, in particular, defining **Leading Medium Enterprises that pay higher wages and are proactively engaging in domestic investment as “Specified Leading Medium Enterprises”**

Taking the following measures regarding the Specified Leading Medium Enterprises provided that the competent minister approves the plans for business reconstruction with the potential for growth submitted by the enterprises:

- **Tax benefit for Specified Leading Medium Enterprises and SMEs that have formed group companies through conducting multiple M&As**
 - Allowing these enterprises to declare up to 100% of the share acquisition value for 10 years as a reserves for losses.
- Financial support for large-scale and long-term financing offered by the Japan Finance Corporation (two-step loan)
- Subsidies and advice concerning IP management from the National Center for Industrial Property Information and Training(INPIT), etc.

Note: Apart from these measures, if **Specified Leading Medium Enterprises** receive approval on their plans under the Regional Future Investment Promotion Act, **an additional tax reduction for business investment are applied to these enterprises** (tax reduction up to 6% from the current tax brake up to 5%).

(2) Measures related to startups

- [iv] Extension of the period for which **Japan Investment Corporation (JIC)** can hold securities, etc. **to the end of March 2050** (the current limit is the end of March 2034)
- [v] Enhancing the function of the New Energy and Industrial Technology Development Organization (NEDO) to provide subsidies **to support activities by deep-tech startups for business development**
- [vi] **Adding crypto assets as one form of asset** that **an investment limited partnership (LPS)** is allowed to acquire and hold, etc.
- [vii] **Establishing special measures (so-called stock option pools)** that allows startups **to issue stock options in a flexible and agile manner** (expanding the scope of matters and the period of delegations those are allowed to be delegated from the general shareholders’ meeting to the board of directors)

(3) Inter-company measure

- [viii] **Allowing companies to receive consultations from INPIT and NEDO provided that the competent minister approves the plans submitted by the companies for creating new markets by taking advantage of standardization and IP** focusing on joint research and development between the companies and universities, etc.

Notes: 1. In addition, the bill is to stipulate provisions for other measures, including the abolition of the measures for business adaptation for development and growth under the business adaptation plan and the abolition of measures for the plans for specified investment program for developing new business.
2. The bill is to revise the wording of the Act on Strengthening Industrial Competitiveness to more appropriate wording concerning Article 23(5)(iv) of the Act, which was stipulated at the time of the establishment of the Act in 2013, and Article 107(1), which was revised at the time of the revision in 2018.