Section 3 Investment incentives

1. Attracting high-value-added facilities

The presence of investment incentives will be an important factor for global companies to select Japan from among investment destination candidates, so such incentives are important as a means to internationally demonstrate the active stance of the national and local governments in Japan regarding attracting foreign companies.

Therefore, the Ministry of Economy, Trade and Industry implemented the Projects Promoting Foreign Direct Investment, Site Location and Regional Development in Japan (Project of Site Location for Global Companies), which provides subsidies to partially cover the business cost when a global company operating in multiple countries establishes a high-value-added business site, such as a Regional Headquarters or an R&D Site in Japan (part of the FY2014 budget of ¥2.5 billion).

Under the Act on Special Measures for the Promotion of Research and Development Business, etc. by Specified Multinational Enterprises (Act for Promotion of Japan as an Asian Business Center; entered into force in November 2012), special measures such as income tax breaks were implemented for research and development business and supervisory business conducted in Japan by global companies (Figure III-3-3-1-1).
1. Target business activities
- Support measures are applied for R&D and headquarters operations(*) that are newly conducted in Japan by global companies certified as being adapted to the basic policies established by the competent minister.

(*) Operations such as deciding business policies of subsidiaries

2. Support measures
- Income tax breaks: The same taxation system as applied to Japanese companies is applied to stock options granted by parent companies (overseas companies).
- Reduced patent fees: Patent fees regarding the outcome of R&D operations are reduced.
- Shortened investment procedures: The period of investment limitation after the date of notification under the Foreign Exchange and Foreign Trade Act is reduced from 30 days to two weeks.
- Assistance for fund raising: Assistance for fund raising is provided by the Small and Medium Business Investment & Consultation Co., Ltd.

* In addition to the above measures, immigration examination (Certificate of Eligibility for Status of Residence) will be accelerated for foreign nationals who will work at certified companies in Japan. (Usually, one month → shortened to about 10 days)

*Application of Immigration Control and Refugee Recognition Act

3. Effects
- Attracting global companies with high added value, and creating job opportunities
- Development of new products and technologies under cooperation between global companies and Japanese SMEs, etc.

Source: Ministry of Economy, Trade and Industry
2. Vitalizing regions by attracting foreign companies

On December 27, 2014, the Comprehensive Strategy for Overcoming Population Decline and Vitalizing Local Economy in Japan was approved by the Cabinet in order to overcome the population decline and achieve regional vitalization.

Under the Grant Program for Emergency Support for Local Residents’ Lives, etc. (Regional Vitalization Grant Program), (FY2014 supplementary budget: ¥420 billion) which was created based on this strategy, the promotion of foreign direct investment in Japan was characterized as a policy measure option. The use of the Regional Vitalization Grant Program is expected to strengthen initiatives conducted by local governments eager to attract foreign companies.

Example cases of initiatives conducted by local governments include (i) implementing sales pitches by top officials and holding seminars on secondary investment, (ii) analyzing and providing information on the attractions of regions, (iii) inviting and training foreign personnel (buyers and former students in Japan) who may act as intermediaries for investment and (iv) developing one-stop support facilities, mainly JETRO’s domestic offices.

In addition, under the FY2015 tax reform, the tax program to strengthen local business bases was created in order to provide investment tax reduction for the acquisition of a headquarters building when a company transfers its headquarters function from the Tokyo region to non-metropolitan regions or when it expands the headquarters functions in non-metropolitan regions and to provide tax credits when a company increases its workforce in non-metropolitan regions. As this tax program is also applicable to cases where a foreign company transfers its headquarters functions to non-metropolitan regions in Japan, it is expected to promote investment in such regions by foreign companies (Figure III-3-3-2-1).
Figure III-3-3-2-1 Tax program to strengthen local business bases

Expansion (including inward direct investment)

Assisting in enhancing the headquarters function of companies located in non-metropolitan regions

* “Headquarters function” refers to establishments that undertake management decisions, management of corporate resources (departments of general affairs, accounting, and human resources), and other headquarters operations (R&D, international operations, etc.). Plants and establishments for managing that region are not included. Not only the establishment but also expansion of such function is included in the scope of the program.

Enhancing business bases in non-metropolitan regions

Local governments that meet the following requirements formulate a plan and the national government gives approval.
1. Requirements for regions: In addition to the right, the region has to comprise an economic sphere of about 100,000 population alone or in coalition with other regions, and have accumulated a certain amount of businesses.
2. The region implements measures to promote acceptance of the headquarters function.

Transfer

Solving overconcentration in Tokyo

Promoting transfer to non-metropolitan regions

Deeper support measures are applied for the transfer of business bases than for expansion

Special depreciation of 25% or tax credit of 7% (*) is applied to the purchasing price of headquarters buildings. *4% if the plan was approved in FY2017.

Special depreciation of 15% or tax credit of 4% (*) is applied to the purchasing price of headquarters buildings. *2% if the plan was approved in FY2017.

Tax reduction for headquarters buildings

(1) Tax credit of 500,000 yen per increased employee. <In addition to the conventional 400,000 yen tax credit, a 100,000 yen tax credit is applied for regional bases.>
(2) When the ratio of increased employees at the entire company is less than 10%, a tax credit of 200,000 yen is applied per increased employee.

Tax program for promoting employment

(1) Up to 800,000 yen tax credit is applied per increased employee. <In addition to the conventional 500,000 yen tax credit for expansion, a 300,000 yen tax credit is applied for regional bases.>
(2) 300,000 yen of the tax credit stated in (1) above will continue for three years as long as the employment is maintained.
(3) Even when there is no increase in the number of employees for the entire company, the relocation of employees from Tokyo to other regions is also subject to the measure of (2) above.

Source: Ministry of Economy, Trade and Industry