

# Adoption of Dividend-Exemption Systems in Japan: Government Perspectives

Chizuru SUGA

Deputy Director, International Tax Systems

METI, Japan

# International Tax Reforms in Japan

- ◆ Foreign Dividend Exemption from 2009FY
- ◆ CFC rules reform in 2010FY, 2011FY
- ◆ Transfer Pricing rules reform in 2010FY, 2011FY
- ◆ Tax rate cut from 40% to 35% from 2011FY
- ◆ Foreign earned income exclusion yet to be discussed

# Our Policy Goals: Virtuous Growth Cycle

◆ Corporate tax cuts by 5%

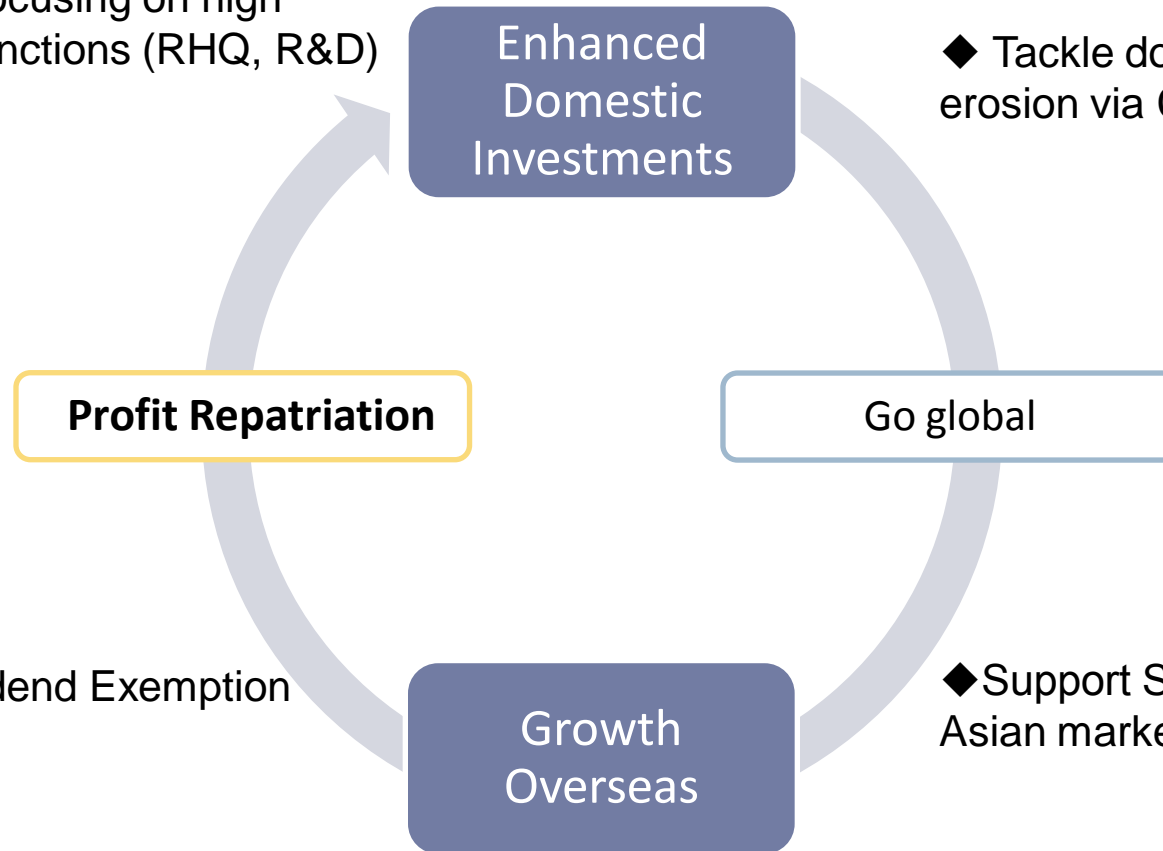
◆ Attract FDI focusing on high value-added functions (RHQ, R&D)

◆ Maintain key industrial base within Japan

◆ Tackle domestic tax base erosion via CFC rules etc

◆ Foreign Dividend Exemption

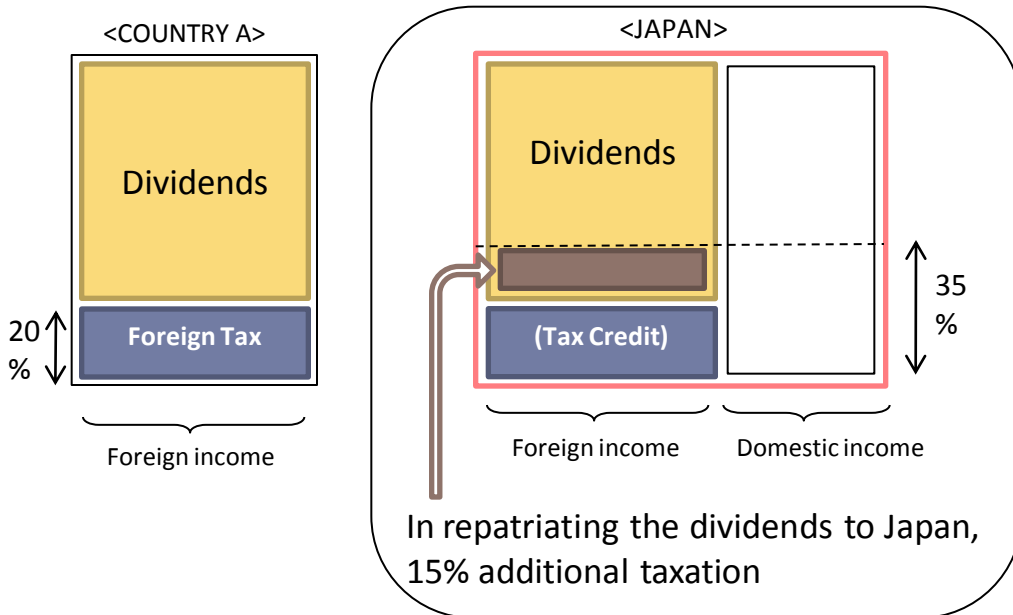
◆ Support SMEs' entry into Asian markets



# Foreign Dividend Exemption

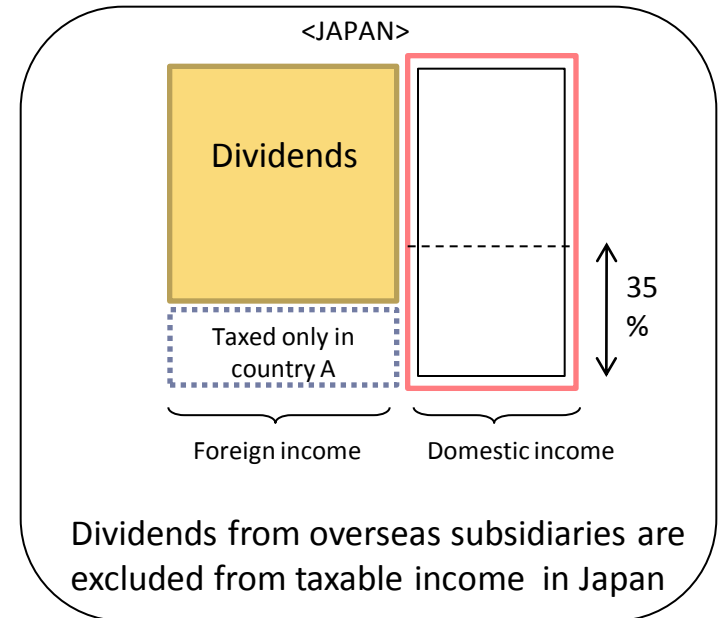
- ◆ Introduced as a simple and efficient alternative of Indirect Foreign Tax Credit.
- ◆ The primary purpose is to achieve tax neutrality – to eliminate obstacles on corporate strategy and dividend policy.
- ◆ Repatriated dividends expected to be mainly invested domestically in R&D, fixed capital and employment, thereby stimulating the Japanese economy.

## Foreign Tax Credit System (Worldwide taxation)

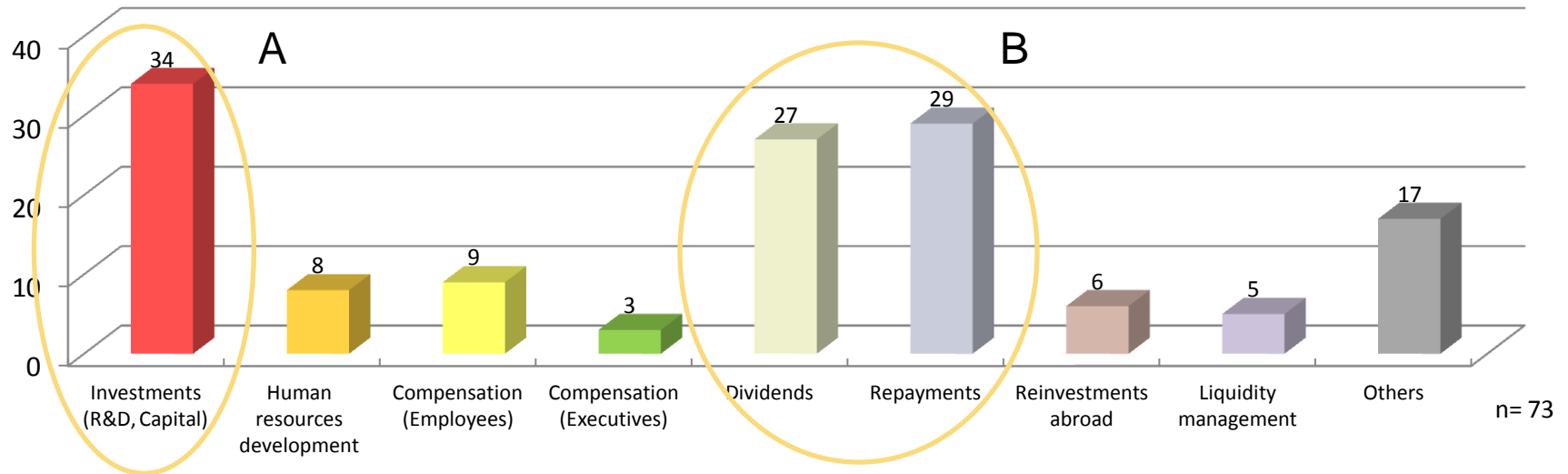


## Foreign Dividend Exemption

\*95% of dividends excluded from taxable income.  
(remaining 5% deducted as expenses).



# Plan to increase repatriation?



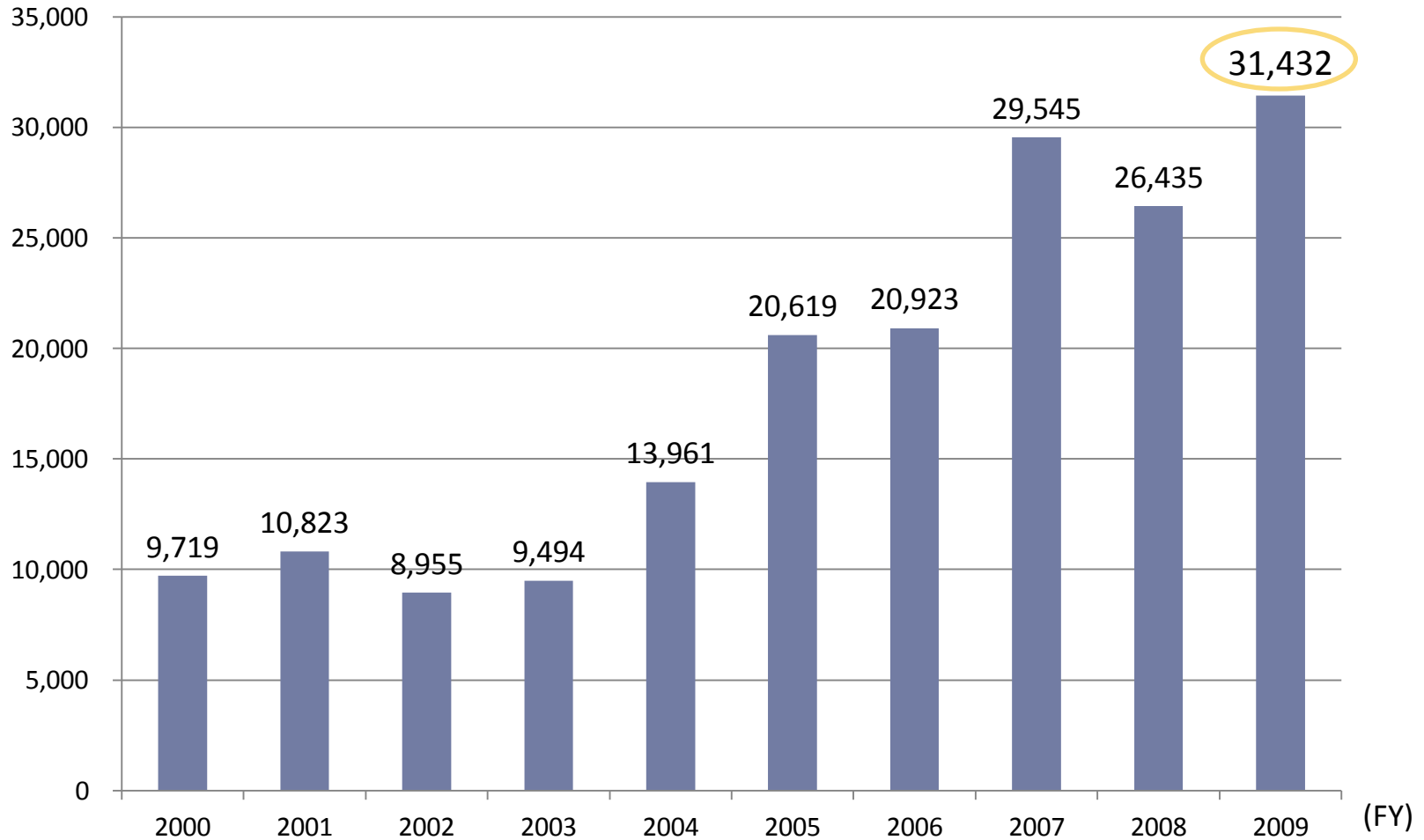
◆ Decided to finance R&D by repatriated earnings of foreign subsidiaries because the cost of capital was less expensive than debt. <50% of A>

◆ Enhanced capital adequacy allows more aggressive management, thus leads to more investments in capital and R&D in the mid- long term. <70% of B>

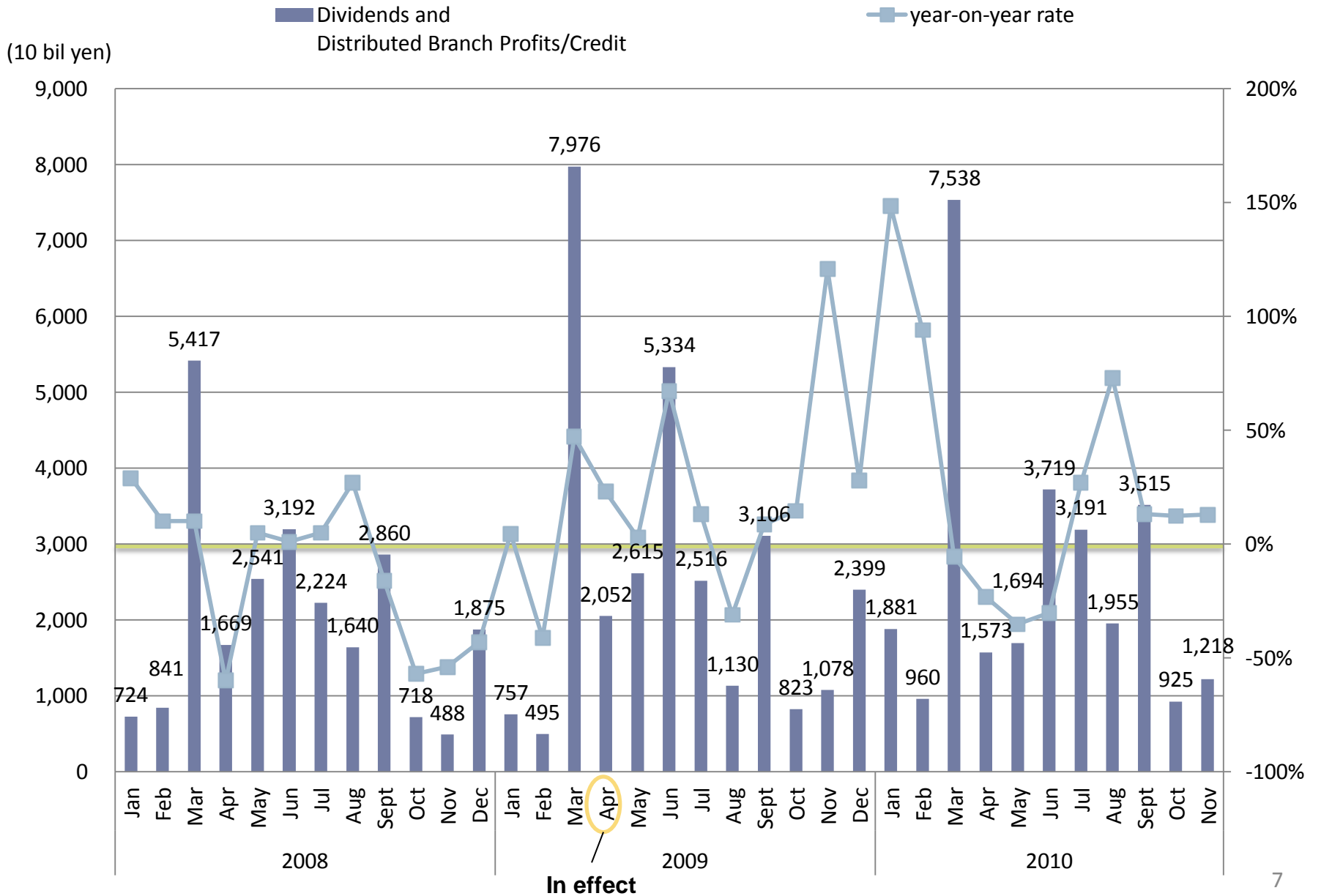
◆ Plan to increase repatriation despite the economic downturn after the financial crisis . <70% of all>

# Profit repatriation marked record-high, up 20% in 2009FY

(10 bil yen)



# Repatriation has been steadily increasing...



# Any Questions?

Chizuru SUGA

Deputy Director, International Tax Systems  
Trade and Investment Facilitation Division, METI,  
Government of Japan

suga-chizuru@meti.go.jp  
+81-3-3501-1662

