

# Japan: Inbound Tax Alert

## Tax incentives for the relocation and expansion of headquarter functions from major cities to local areas

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### In Brief

One of the most important political challenges in Japan in recent years is to stop a decrease in the population of local areas and the resulting contraction of local economies. To address these issues, tax incentives for the relocation and expansion of headquarter functions from major cities to local areas were established in the 2015 tax reform and these include: tax relief for capital investments and job creation, and a reduction in local tax rates. A portion of these incentives was expanded in the 2017 tax reform.

This newsletter outlines the procedures to apply for these benefits and summarizes the calculation of such benefits related to tax relief for capital investments and job creation, both of which have a significant impact on corporate tax.

### Procedures for Application of Tax Incentives

If a company wishes to apply for these incentives, it first needs to determine whether or not the municipality to which the company is considering to relocate or expand its headquarter functions is designated as an “area of local revitalization<sup>1</sup>” and has filed a local revitalization plan which has been authorized by the Prime Minister.

Following, the company must file a “plan for the establishment of specified facilities<sup>2</sup> for local revitalization” with the governor of the relevant prefecture in order to receive authorization for the plan.<sup>3</sup> Requirements for such certification are as follows:

- The plan is consistent with the local revitalization plan of the relevant prefecture in which the headquarter functions will be relocated or expanded (e.g., the establishment, addition, lease or improvement, or the change of use of headquarter functions).
- The number of employees of the headquarter function is expected to increase generally by at least ten (five for Small/Medium sized Enterprises (“SMEs”)),<sup>4</sup> and in the case of relocation, at least half of the employees of these functions are transferred from Tokyo.<sup>5</sup>
- It is expected that the plan can be implemented smoothly.

Support teams for these incentives have been established in Tokyo, Nagoya and Osaka and areas covered by these measures are listed on the [website](#) (Japanese only), however it is recommended to directly contact the prefecture in which you are considering to relocate or expand for details and the latest information.

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1 “Areas of Local Revitalization” are areas other than “Concentrated Areas.” The term “Concentrated Areas” refers to areas (and neighbouring areas) where excessive concentration of industries and over-population needs to be prevented.

2 Specified facilities are offices and research and training facilities (excluding factories) which contribute to job creation or the enhancement of the economic base, such as the head or main office, of local areas.

3 Application for such authorization must be filed before implementation of the plan

4 SMEs for the purpose of these incentives are defined as enterprises with share capital of JPY100 million or less and full-time employees of 300 or less for manufacturers and those with share capital of JPY50 million or less and full-time employees of 100 or less for service providers. It should be noted that the definition varies depending on the type of business.

5 The 2017 tax reform provides that a portion of newly hired employees at a specified facility can be considered as those transferred from a Specified Concentrated Area.

## Details of the Tax Incentives

Tax incentives for corporate relocation include tax relief measures for capital investments and job creation in order to promote the relocation of functions, people and employment from major cities to local areas. The details of these incentives vary depending on whether headquarter functions are relocated or expanded, but in general, tax relief for relocation is greater than that for expansion. For further information regarding the calculation of the incentives after the 2017 tax reform changes, please refer to the summary chart below (please note that additional requirements may apply).

| Tax relief for capital investment   |  |
|---|--|
| Requirements  |  |
| Buildings and attached equipment or structures which fall within a specified facility are acquired, or built and start to be used for business and the total acquisition cost of a specified facility is at least JPY20 million (For certain SMEs, at least JPY10 million).   |  |
| Calculation (Special depreciation or tax credit)  |  |
| Expansion Type  | Relocation type                              |
| Depreciation = Acquisition Cost x <b>15%</b>  | Depreciation = Acquisition Cost x <b>25%</b> |
| Tax Credit = Acquisition Cost x <b>4%</b>   | Tax Credit = Acquisition Cost x <b>7%</b>    |
| * Tax credit is limited to 20% of corporate tax for the current fiscal year.  |  |
| Tax relief for job creation   |  |
| Requirements  |  |
| Applicable for any fiscal year that includes any day from the date the of authorization of the plan for local revitalization to 2 years later and meets the following conditions. The conditions ① to ③ are mandatory. If the condition ④ is met, the tax credit amount is increased:   |  |
| <ul style="list-style-type: none"> <li>① The increased No. of employees (see below for a definition) is generally at least 5 (or for SMEs at least 2) and total salary for the current fiscal year is greater than total salary for previous fiscal year.</li> <li>② There are no lay-offs during the applicable and previous fiscal years.</li> <li>③ The business is stipulated in the Employment Insurance Law (excluding certain businesses)</li> <li>④ The increased number of employees is at least 10%.</li> </ul> |  |
| Calculation   |  |
| Tax credit is the sum of the following 1 to 3:  |  |
| <b>1 JPY300,000 (or if ④ is met JPY600,000) x Increased No. of employees of Specified Facility (up to No. of new full-time employees of Specified Facility)</b>   |  |
| <b>2 JPY200,000 (or if ④ is met JPY500,000) x (A + B)</b><br><b>A - the smaller of (1) or (2)</b><br>(1) No. of total new employees of Specified Facility (up to Increased No. of employees of Specified Facility) - No. of new full-time employees of Specified Facility<br>(2) No. of total new employees of Specified Facility x 40%<br><b>B - (1) minus (2)</b><br>(1) Increased No. of employees of Specified Facility<br>(2) No. of total new employees of Specified Facility                                       |  |
| <b>3 JPY100,000 (or if ③ is met, JPY400,000) x A</b><br><b>A - (1) minus (2)</b><br>(1) No. of total new employees of Specified Facility (up to Increased No. of employees of Specified Facility) - No. of new full-time employees of Specified Facility<br>(2) No. of total new employees of Specified Facility x 40%  |  |
| * Tax credit after being aggregated with tax credit for capital investment is limited to 30% of corporate tax for the current fiscal year.  |  |
| ** For the application of tax incentives for job creation, companies are required to file job creation plans with the relevant public job placement offices before the beginning of the fiscal year during which the company intends to apply the measures.   |  |



### Deloitte's View

There may be taxpayers who have abandoned the idea of the application of these tax incentives because of their procedural complexity and the administrative burden required. However, the benefits are significant.

The recent development in communication and transportation technologies has greatly reduced disadvantages for having offices in local areas and as a result, functions which do not need to be in major cities, such as Tokyo, are expected to be increasingly relocated to local areas and opportunities for tax benefits will likely increase.

However, as methods for calculating the amount of benefits and the procedures to qualify for benefits are complex, detailed preparation will be necessary.

Nevertheless, if taxpayers are able to effectively take advantage of these offerings, positive spillover effects can be realized at both the company and local community level.

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