

Japan: Inbound Tax Alert

Japan's New Graduation Requirements of the GSP

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In Brief

In December 2016, Japan Customs announced that they would review the graduation requirement of the generalized scheme of preferences (GSP). The new requirement will enter into force from April 2019 for entire graduation and April 2018 partial graduation. China and Brazil, with which Japan does not conclude FTAs, are likely to be newly graduated countries.

Graduation Requirement of the GSP

In Japan's GSP, a country shall be excluded from the list of beneficiaries as "Entire Graduation" or "Partial Graduation" when it achieves a certain level of economic development. The GSP rate will not be able to be applied to all items from entirely graduated countries and specific items from partially graduated countries.

Since over 90% of the GSP applied on imports to Japan is from high-middle income countries such as China, the original aim of the GSP, which is to help developing countries by making access to Japan's market easier, does not seem to have been achieved. To make the GSP more efficient, Japan Customs decided to implement a review of the graduation requirement of the GSP.

Revised Requirements of the GSP

The details of the revised requirements are as follows. The underlined parts are to be newly added.

| | New Graduation Requirement | Expected Countries | Entry into Force |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Partial Graduation | ① Country which is considered a "high income country" in world statistics OR ② <u>Country which is considered a "high – middle income country" in world statistics with an export amount of 1% or more of the total export value in the world</u> AND ③ Items imported of more than 1 billion yen per year from countries which satisfy ① or ②, with 25% or more of import share of Japan | <ul style="list-style-type: none"> ▪ China ▪ Malaysia ▪ Brazil | April 2018 ~ |
| Full Graduation | ① Country which is considered a "high income country" in world statistics for three consecutive years OR ② <u>Country which is considered a "high–middle income country" in world statistics for three consecutive years with an export amount of 1% or more of the total export value in the world</u> | <ul style="list-style-type: none"> ▪ China ▪ Malaysia ▪ Brazil ▪ Mexico ▪ Thailand | April 2019~ |

In the world statistics released in 2016, the Gross National Income (GNI) per capita is set as follows.

- Countries with GNI per capita of 12,736 USD or more are considered as a high income country.
- Countries with GNI per capita of 4,125 USD to 12,736 USD are considered as a high-middle income country.

The countries mentioned are based on the current statistics. Official countries and items subject to the partial graduation are to be officially announced by Japan Customs around April to May 2017, and the ones subject to the entire graduation are to be officially announced after 2018.

In the current mechanism, Uruguay, Saint Kitts & Nevis and Chile, which have been considered as high income countries in world statistics for three consecutive years are confirmed to graduate on April 1, 2017



Deloitte's View

In summary, due to the newly added requirements, a higher duty rate (i.e. general or MFN rate) is expected to be applied to all items from entirely graduated countries and specific items from partially graduated countries such as China and Brazil.

On the other hand, Malaysia, Mexico and Thailand with which Japan has EPAs are expected to be less affected because of the applicable EPA preferential rate.

Please contact Deloitte Tohmatsu Tax Co. – Tokyo Office for further information about countries and items subject to graduation.

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Contacts

Inbound Group, Deloitte Tohmatsu Tax Co.

Not all articles or facts and circumstances are covered in this alert. If you have any questions regarding your specific situation, please contact one of the tax professionals at our Deloitte office in Tokyo as follows:

Yang Ho Kim, Inbound Group Leader yangho.kim@tohmatu.co.jp +81 3 6213 3841

Business Tax Services

Sunie Oue, Partner sunie.oue@tohmatu.co.jp +81 3 6213 3753

Jun Takahara, Partner jun.takahara@tohmatu.co.jp +81 3 6213 3946

Indirect Tax Services

Chikara Okada, Partner chikara.okada@tohmatu.co.jp +81 3 6213 3900

Global Employer Services

Russell Bird, Partner russell.bird@tohmatu.co.jp +81 3 6213 3979

Transfer Pricing

Timothy O'Brien, Partner timothy.obrien@tohmatu.co.jp +81 3 6213 3923

Jun Sawada, Partner jun.sawada@tohmatu.co.jp +81 3 6213 3927

Issued by

Deloitte Tohmatsu Tax Co.

Tokyo Office

Shin-Tokyo Building 5F, 3-3-1 Marunouchi, Chiyoda-ku, Tokyo 100-8305, Japan

Tel: +81 3 6213 3800

email: tax.cs@tohmatu.co.jp

Corporate Info: www.deloitte.com/jp/en/tax

Tax Services: www.deloitte.com/jp/tax/s/en

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