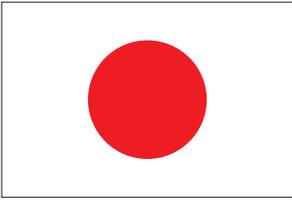


Japan



Background

The general national corporate tax rate is 23.9% for fiscal periods beginning on or after 1 April 2015 (the rate was 25.5% for fiscal periods commencing between 1 April 2014 and 31 March 2015). However, other local corporate tax rates (inhabitants tax rate and local enterprise tax rate) apply when calculating the total corporate tax liability of a company, which is approximately 33% for periods beginning on or after 1 April 2015 (about 26% for periods commencing between 1 April 2014 and 31 March 2015).

The R&D tax incentives are volume-based and incremental.

Nature of incentives

Volume-based tax credit: The tax credit for general R&D costs is a volume-based credit, and varies depending on whether the company claiming the credit is a small and medium-sized company (SME) or a large company.

Small and medium-sized enterprise (SME): A SME is defined as a company with stated capital of JPY 100M or less. SMEs owned by a large company/companies whose capital exceeds JPY 100M do not qualify as SMEs for these purposes.

SMEs may claim a tax credit equal to 12% of total R&D expenditure.

For fiscal periods beginning on or after 1 April 2015, the credit is limited to 25% of the company's national corporation tax liability before the credit is applied (previously 30%).

Large companies: The tax credit for large companies is 8% to 10% of total R&D expenditure, with the same limit as for SMEs.

Tax credit for special R&D costs: For fiscal years beginning on or after 1 April 2015, a 30% credit (previously 12%) is provided for joint R&D with a university or public research institution: or where the R&D is contracted to such entities. Royalty payments made to SMEs also qualify for this special tax credit. The credit is 20% where the R&D is with other non-public entities. This tax credit is limited to 5% of the company's national corporation tax liability before the credit is applied. This limitation is in addition to the other limitations on research credits.

Japan offers volume-based credits, as well as incremental credits for companies that have increased their research spending.

Incremental tax credits: Additional incremental tax credits (for both SMEs and large companies) also are available. Where the current period R&D expenditure exceeds: (i) the annual average of the R&D expenditure for the three preceding fiscal years; and (ii) the highest annual R&D expenditure for the previous two fiscal years, the company may claim the percentage of R&D expenses allowable as a credit from 5% up to 30%, depending on the amount of increase in the R&D expenses.

Alternatively, where the current period R&D expenditure exceeds 10% of the average annual sales for the four preceding fiscal years (including the current year), the company is eligible for a credit calculated using the following formula: R&D expenditure less [average annual sales for the four prior years x 10%] multiplied by the R&D ratio (defined below) reduced by 10%, multiplied by 20%. The R&D ratio is the amount of current year R&D expenses divided by average annual sales for the four preceding fiscal years (including the current tax year).

The tax credit is limited to 10% of the company's national corporation tax liability before the credit is applied. The additional tax credit is available for fiscal years commencing on or after 1 April 2014 through 31 March 2017.

The R&D tax credit is available to "blue return" filers. Blue form tax return status is obtained by submitting an application to the appropriate tax office. Record-keeping substantiation requirements apply.

For fiscal years beginning on or after 1 April 2015, unused tax credits no longer may be carried forward (previously, a one-year carryforward was available).

Eligible industries and qualifying costs

Research credits are not limited to a specific industry, although the activity must be technological and scientific in nature. As a result, research conducted in nontechnical fields generally does not qualify for the research credit.

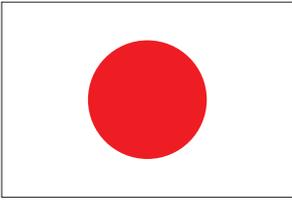
The expenses must be incurred by the Japanese entity. Research expenses that are funded by unrelated entities (government agencies, customers, suppliers, etc.) are not eligible for the research credit.

To qualify for the credit, the expenses must be incurred to manufacture products or to improve, design, formulate, or invent techniques.

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Japan (cont.)



Qualifying expenditure includes in-house labor costs, supplies, overhead, depreciation on fixed assets, and contract costs. Only tax deductible R&D expenses incurred by the Japanese entity are eligible for the credit.

Salaries generally mean the amount paid to employees who are engaged exclusively in R&D activities; however, segregation of activities may be permitted if clearly documented. Labor costs relating to performing qualifying activities may be allowable for R&D credit purposes to the extent details of the activities are clearly documented. Documentation should indicate the time spent by each employee on qualifying R&D activities, with details of appropriate calculations for the labor cost. The legislation is silent as to how to determine the applicable labor costs.

IP and jurisdictional restrictions

Japanese law does not expressly require that companies claiming research tax incentives own the IP created through their R&D activities.

The qualifying costs incurred by a Japanese company are eligible for the research credit even if the research is conducted outside of Japan.

Other concerns

No prior approvals from government/regulatory agencies is required.

Credit should be claimed on the tax return for the relevant period. Claims on amended tax returns generally are not accepted.

Japan

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Volume-based and incremental research credits	<ol style="list-style-type: none"> Volume-based credits: <ul style="list-style-type: none"> The tax credit for SMEs is 12% of total R&D expenditure. The tax credit for all other companies is 8% to 10% of total R&D expenditure. Costs incurred for collaborative research with R&D institutions qualify for credits ranging from 12%-30%. Incremental credits ranging from 5% to 30% are available depending on the increase in qualified research spending over prior years. 	No	For fiscal years beginning on or after 1 April 2015, unutilized research credits can no longer be carried forward (the prior rule allowed a one year carry forward)

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No	<p>The limitations on the amounts of research tax credits are as follows:</p> <ul style="list-style-type: none"> The volume-based tax credits are limited to 25% of the tax liability before the credit is applied (this limitation is effective for FYs beginning after 1 April 2015). Collaborative research credits and other special credits are limited to 5% of the company's national corporation tax liability before the credit is applied. Incremental research credits are limited to 5% of the company's national corporation tax liability before the credit is applied. 	No	No