CHAPTER XIV

Securities Taxation

1. Transitions in Securities Taxation (1)

Basically, the income tax system of Japan is based on comprehensive taxation (taxation on the total income). It traces its origin to a recommendation made soon after the war by the Shoup Recommendation on Japanese Taxation. Under the Shoup taxation system enforced in 1950, capital gains from sales of securities, as well as interest and dividends, were subject to comprehensive taxation in full (capital losses were fully deductible). After the end of the Allied military occupation, however, the Japanese government authorized separate taxation on interest and exempted from tax, in principle, capital gains from the sale of securities primarily from a policy standpoint to encourage accumulation of capital—with the result that the ideal of comprehensive taxation on income has disintegrated rapidly. And it was a sweeping reform of the taxation system carried out in 1987–1989 that helped the basic framework of the present income tax system take shape. At that time, the structure of income taxation was changed from one consisting of 15 brackets (10.5%–70%) to a flat one consisting of five brackets (10%–50%), and the financial income taxation system was overhauled thoroughly, including the introduction of uniform separate withholding taxation on interest income; the abolition of the tax-exempt savings system, in principle; and separate taxation, in principle, on capital gains from the sale of securities. The structure of income tax rates was amended to 4 brackets (10%–37%) in the fiscal 1999 tax reform and to 6 brackets (5%–40%) in the fiscal 2006 tax reform. In the fiscal 2013 tax reform, from the perspective of correcting income disparity and reviving the income redistribution function, starting with income tax for 2015, the rate for taxable income in excess of ¥40 million was set at 45%. Based on the fiscal 2016 tax reform, the basic corporate income tax rate was reduced to 23.4% from 23.9% in FY2016, and was further reduced to 23.2% in FY2018. As a result, the tax rate for national and local income combined (the effective corporate tax rate) became 29.74% in FY2018.

Looking at major trends in Japan's securities taxation system during the late 1990s and early 2000s, the government built taxation systems for stock

Table XIV-1. Securities Taxation Evolution Timeline (1949−2002)

Year	Major amendments	Income tax brackets
1949	Shoup recommendation	
1950	A comprehensive taxation of interest, dividends, and capital gains from the sale of securities is enforced.	8 brackets (20%−55%)
1951	The optional separate withholding tax (50%) on interest is revived.	
1952	The withholding tax on dividends (20%) is revived.	
1953	Securities capital gains are exempted from income tax, in principle. The securities transaction tax is instituted (0.15% of the value of stock transaction). A uniform separate withholding tax on interest (10%) is instituted.	11 brackets (15%−65%)
1954	The withholding tax on dividends is reduced (from 20% to 15%).	
1955	Interest is exempted from income tax. The withholding tax on dividends is lowered (from 15% to 10%).	
1957	The separate withholding tax only on interest on short-term savings is revived (10%).	13 brackets (10%−70%)
1959	The separate withholding tax on interest on long-term savings is revived (10%).	
1961	Securities capital gains tax is levied on certain large-lot transactions.	
1962		15 brackets (8%−75%)
1963	The withholding tax rate on interest and dividends is lowered (from 10% to 5%).	
1965	The withholding tax rate on interest and dividends is raised (from 5% to 10%). The system of not requiring declaration and the optional separate withholding tax on dividends (15%) are introduced.	
1967	The withholding tax on interest and dividends is raised (from 10% to 15%). The optional withholding tax on dividends is raised (from 15% to 20%).	
1969		16 brackets (10%−75%)
1970		19 brackets (10%−75%)
1971	The optional separate withholding tax on interest (20%) is revived.	
1973	The optional withholding tax on interest and dividends is raised (from 20% to 25%). The securities transaction tax is raised (from 0.15% to 0.3%).	(The taxable income applicable to tax rate brackets is raised in 1971 and again in 1974.)
1976	The optional withholding tax on interest and dividends is raised (from 25% to 30%).	
1978	The withholding tax rate on interest and dividends is raised (from 15% to 20%). The optional withholding tax rate on interest and dividends is raised (from 30% to 35%). The securities transaction tax is raised (from 0.3% to 0.45% for stocks, etc.).	
1981	The securities transaction tax is raised (from 0.45% to 0.55%).	
1984		15 brackets (10.5%−70%)
1987	A sweeping tax reform	12 brackets (10.5%−60%)
1988	- The *maruyu* system is abolished, in principle.	
1989	- Uniform separate withholding tax on interest (20%) (products similar to financial instruments are also subject to the uniform separate withholding tax). - Securities capital gains are taxed, in principle (introduction of a separate withholding tax of 1% of the stock transaction value). - The securities transaction tax is lowered (from 0.55% to 0.3%).	5 brackets (10%−50%)
1995		(In 1995, the taxable income applicable to tax rate brackets is raised.)
1996	Securities capital gains tax is normalized (from 5% of deemed capital gains to 5.25%). The securities transaction tax is lowered (from 0.3% to 0.12%).	
1998	The securities transaction tax is lowered (from 0.12% to 0.06%).	
1999	The securities transaction tax and exchange tax is abolished.	4 brackets (10%−37%)
2001	A tax exemption system is launched for small-amount capital gains from the sale of stocks held long term (abolished after the 2003 tax system reform). An emergency investment tax break is established.	
2002	The special account system is established (implemented January 2003).	

options, specific-purpose companies, and corporation type investment trusts in 1998. Effective April 1999, it abolished the securities transaction tax and the exchange tax (imposed on futures and options trading), which had long been issues of concern. Further measures followed with the enhancement of the Angels Taxation System in 2000 and the introduction of the tax-exemption system for profits on small sales amounts of stocks being held for the long term (a ¥1 million special tax exemption on stocks, etc., held for more than one year) and an emergency investment tax break (a tax exemption on up to ¥10 million of principal) in 2001. The establishment of the special account system was included in the tax revisions for fiscal 2002 and launched on January 1, 2003. During the same period, the government reorganized its tax-exempt small-amount savings system for the elderly, etc. (*Maruyu* savings system for the elderly, etc.), converting it into a tax-exempt small-amount savings system for persons with disabilities, etc. (*Maruyu* savings system for persons with disabilities etc.).

2. Transitions in Securities Taxation (2)

Since 2003, the reforms in the securities taxation system have focused mainly on revisions in the preferential tax system for dividends and capital gains on

Table XIV-2. Securities Taxation Evolution Timeline (Since 2003)

Year	Major amendments	Income tax brackets
2003	Consolidation of taxation of gains on transfer of securities into a single separate tax on tax declaration The tax exemption system for small-amount capital gains from the sale of stocks held long term is abolished	↓
2004	Preferential tax rate on dividends and capital gains from publicly offered stock investment trusts is introduced Tax rate on capital gains is reduced from the sale of unlisted stock (from 26% to 20%).	↓
2007	The expiration date of application for a preferential tax rate is extended for a year for dividends and capital gains of listed stocks, etc.	6 brackets (5%−40%)
2009	Mechanism is introduced enabling netting of dividends and capital gains and losses from listed stocks, etc. Preferential tax rate on dividends and capital gains of listed stocks, etc. is extended for three more years	↓
2011	Preferential tax rate on dividends and capital gains of listed stocks, etc. is extended for two more years	↓
2014	Nippon Individual Savings Account (NISA) is introduced	↓
2015		7 brackets (5%−45%)
2016	Tax system for bonds, etc. is changed and scope of profit and loss netting expanded Junior NISA is introduced	↓
2018	Introduction of installment-type NISA	↓
2020	Measures to adjust double taxation on investment trusts (foreign tax amount reduction) introduced.	↓
2023	NISA to be radically expanded and made permanent (from 2024)	↓

Table XIV-3. Direction of the Doubling Asset-based Income Plan

3. Direction of the Plan
According to a survey by the Financial Services Agency, the most common reason inexperienced people have for not investing is "I don't have spare funds" (56.7%). The second is: "I don't have knowledge about asset management" (40.4%), while the third is: "Because I feel uneasy about purchasing/holding investments" (26.3%)

This survey shows the importance of simple, easy-to-understand and easy-to-use systems and the significance of allowing small-scale investments (100 yen to 1,000 yen), and that the effectiveness of long-term accumulation and diversification is not widely understood. In addition, in order to support households with financial asset formation so as to eliminate the lack of knowledge and dispel concerns, it is necessary to establish a neutral and trustworthy advisory system for consumers. Based on this, the following seven pillars will be promoted as part of an integrated effort toward doubling asset-based income.

(1) Radical expansion of and making permanent NISA to shift household financial assets from savings to investment
(2) Reform of the iDeCo system, such as raising the eligibility age
(3) Creation of a system to encourage the provision of neutral and reliable advice to consumers
(4) Enhancing asset formation for employees
(5) Enhancing financial and economic education to spread the importance of stable asset formation
(6) Realization of an international financial center open to the world
(7) Ensuring customer-oriented business conduct

Tax measures will be considered as part of future tax reforms.

Source: Extract from "Doubling Asset-based Income Plan" by the Council of New Form of Capitalism Realization.

listed stocks, etc., expanding the scope of offsetting losses against gains, and revisions concerning the systems of non-taxables.

In terms of the revisions relating to the preferential tax rate, in the fiscal 2003 tax reform, the government introduced a non-declaration requirement system that imposed only a fixed withholding tax of 20% (15% in income tax and 5% in local inhabitant tax) on dividends and capital gains from listed stocks, etc., and distributions of gains from publicly offered stock investment trusts. At the same time, the government introduced a preferential tax rate of 10% on a limited-time basis. In the fiscal 2004 tax reform, the government extended this preferential tax rate to cover taxable gains from publicly offered stock investment trusts. Then in the fiscal 2007 tax reform, the government carried over the preferential tax treatment for dividends and capital gains from listed stocks etc., for another year. In addition, the fiscal 2009 tax reform extended the preferential tax rate for three years, and the 2011 tax reform extended it for two more years, so that the preferential tax rate was in effect until the end of 2013. To help fund the restoration of the areas stricken by the Great East Japan Earthquake, a special income tax for reconstruction is being levied from 2013 to 2037.

Looking at revisions to the scope of netting of losses against gains, the fiscal 2003 tax reform made it possible for investors to offset losses on redemptions (termination of agreement) of publicly offered stock investment trusts on equities and capital gains, etc., for the year. The fiscal 2004 tax reform added a tax deduction carryforward system (three years) for capital losses on publicly offered stock investment trusts. To reduce the risk of investing in equities for individual investors, the fiscal 2008 tax reform also added a mechanism allowing investors to offset capital losses on listed stocks, etc., against dividends beginning in 2009. Although the application of this mechanism was limited to investors who chose to separately declare their dividend income from listed stocks, etc. in 2009, it became possible to also do so using an income tax withholding account from 2010. Furthermore, the fiscal 2013 tax reform enforced changes to the taxation method for bonds, etc., making it possible to offset income against losses for interest and capital gains on specified bonds, etc., and income from listed stocks starting in 2016.

With regard to the tax exemption system, NISA was introduced in 2014, followed by Junior NISA in 2016 and Installment-type (Tsumitate) NISA in 2018. The "Doubling Asset-based Income Plan" formulated on November 28, 2022, by the Council of New Form of Capitalism Realization, advocated the radical expansion of NISA and making it permanent as the first pillar, and the reform of the iDeCo system as the second pillar. The tax reforms of fiscal 2023 implemented the radical expansion and permanent establishment of the NISA system (see Section 8).

3. Taxation of Interest

Under the fiscal 2013 tax reform, changes were made to the taxation system regarding interest income to go into effect in 2016. The outline of the current system is as follows. The method of separate taxation on the basis of self-assessment or non-declaration is applied for interest on specified bonds and profits distributed by publicly offered bond investment trusts and investment trusts managing publicly offered bonds, etc. after paying a 20% withholding tax (20.315% including the special income tax for reconstruction). Specified bonds are certain bonds, such as government bonds, local government bonds, foreign government bonds, publicly offered bonds, and listed bonds. Interest on deposits and savings, and bonds other than specified bonds and profits distributed by jointly invested trust accounts and privately placed bond investment trusts are treated, in principle, as interest income, and is subject to a withholding tax at a rate of 20% (20.315% including the special income tax for reconstruction) separately from other income. Interest on deposits for tax

Table XIV-4. Interest Taxation System

Classification	Outline
· Interest on specified bonds · Profits distributed by publicly offered bond investment trusts and investment trusts managing publicly offered bonds, etc.	Separate taxation on the basis of self-assessment or no declaration necessary (20% withholding tax including 5% inhabitant tax)
· Interest on deposits and savings · Interest on bonds other than specified bonds (Note 1) · Profits distributed by jointly managed investment trusts and privately placed bond investment trusts	Separate withholding tax (20% including 5% inhabitant tax)
Tax-exempt savings system	· Tax-exempt interest income earned from a small-amount deposit by persons with disabilities, etc. (on principal of up to ¥3.5 million) · Tax-exempt interest income earned from a small-amount investment in public bonds by persons with disabilities, etc. (on principal of up to ¥3.5 million) · Tax-exempt system for the workers' property accumulation savings for house construction plan and the workers' property accumulation savings plan (on principal of up to ¥5.5 million)

Notes: 1. Excluding interest on corporate bonds issued by a family company the payment of which is received by a corporate executive, etc. of the family company either directly or through a related company.
2. Special income tax for reconstruction is levied from 2013 to 2037.
Source: Compiled from materials made by National Tax Administration Agency.

payment savings associations, tax reserve deposits and so-called children's bank savings is tax exempt.

Income from similar financial products (including benefits from fixed-term deposits, benefits based on agreements covered by Article 2, Paragraph 4 of the Banking Act, interest on mortgage securities paid under specific contracts, profit on gold investment accounts, foreign exchange gains on foreign currency investment accounts, gains on policies such as single premium endowment or non-life insurance accounts that meet certain requirements) is uniformly subject to withholding tax at a rate of 20% (20.315% including the special income tax for reconstruction).

Tax-exempt systems of interest income include the tax-exempt small-amount savings system for persons with disabilities, etc. and the tax-exempt system of interest income for workers' property accumulation savings plan (tax-exempt system for property accumulation).

The tax-exempt small-amount savings system for persons with disabilities

Table XIV-5. The Status of Taxation on Interest Income, Etc. (2022)

(millions of yen)

Classification	Amount paid		Withholding tax amount
		Taxable amount	
Public bonds	8,717,573	50,439	6,885
Corporate bonds	1,678,011	266,126	40,505
Deposits (Banks)	319,617	268,525	40,718
Deposits (Others)	304,586	167,724	25,271
Jointly invested trusts	14,093	8,273	1,254
Bond investment trusts	65,328	61,193	8,465
Interest on specified bonds, etc. (Withholding income tax special amount)	621,962	143,631	22,009
Redemption gains from discount bonds	1,690	1,690	281
Others	967,756	796,616	153,970
Total	12,690,616	1,764,216	299,358

Notes: 1. Taxable amount includes not only that paid to individuals but also that to corporations.
2. Interest on specified bonds, etc. (Withholding income tax special amount) applies to special cases whereby the payment processor pays the special amount of withholding income tax to the government on behalf of the income payer.
3. The "amount paid" and "amount of withholding tax" for "gain on redemption of discount bonds" include receipts by individuals as well as corporations.
4. As fractions were rounded to the nearest whole number, the figures may not add up to the actual total amounts.

Source: Compiled based on the data available on the website of the National Tax Agency of Japan.

includes a tax-exempt system for interest income on small-sum savings for persons with disabilities (commonly known as *Maruyu* savings for persons with disabilities, etc.) and one for interest income on small-amount public bonds for persons with disabilities (commonly known as special *Maruyu* for persons with disabilities, etc.). Both of these systems have an upper limit of ¥3.5 million for tax-exempt principal, making earnings on a total of up to ¥7 million in principal tax free when both types of systems are used. The government abolished the previously available tax-exempt system for interest income on postal savings for persons with disabilities, etc., after the privatization of postal services. Qualified persons with disabilities include persons with a physical disability certificate, persons who receive a disability pension, wives who receive survivors' basic pension benefits or a widow's pension.

The tax-system for property accumulation includes the workers' property accumulation savings for house construction plan and the workers' property accumulation savings plan. These savings are designed to encourage workers below 55 years of age to buy houses and stabilize their retirement lives, and the interest on combined principals of ¥5,500,000 or less would be nontaxable. However, the workers' property accumulation savings plan investing in life insurance and property insurance, etc., have a nontaxable upper limit of ¥3,850,000.

4. Taxation of Dividends

In principle, not taking into consideration the special income tax for reconstruction, the balance of dividends, distributions of gains from publicly offered stock investment trusts, and other applicable income earned by stockholders or investors after the payment of a 20% withholding tax is subject to comprehensive taxation. When comprehensive taxation is levied on dividend

Table XIV-6. An Outline of Dividend Income Taxation

<table>
<tr><th colspan="2">Classification</th><th colspan="2">Outline</th></tr>
<tr><td colspan="2">Distributions from publicly offered stock investment trusts, etc.</td><td colspan="2" rowspan="2">・Comprehensive taxation
Dividend on listed stocks, etc. (5% to 45% income tax; 10% inhabitant tax)
(Dividend deduction applicable)
・Select either separate taxation on the basis of self-assessment
Dividend on listed stocks, etc. (15% income tax; 5% inhabitant tax)
(non-declaration is also possible)</td></tr>
<tr><td rowspan="3">Dividend of surplus, dividend of profits, distribution of surplus, etc.</td><td>Dividend on listed stocks, etc. (excluding large shareholdings) (Note 1)</td></tr>
<tr><td>Other than above</td><td colspan="2">Comprehensive taxation (tax credits for dividends)
(5% to 45% income tax, 10% inhabitant tax)
(20% withholding)
(20% income tax)</td></tr>
<tr><td>Dividend paid at one time is no more than:
¥100,000 × $\frac{\text{Dividend computational period}}{12}$
Items below</td><td></td><td>No declaration necessary
(20% withholding)
(20% income tax)</td></tr>
</table>

Notes: 1. For dividends on listed stocks, etc., dividends paid to large shareholders (those whose who hold 3% or more of the total number or total amount of issued shares or capital) are subject to 20% withholding tax (income tax) as well as, in principle, comprehensive taxation. The same applies to any person who receives dividends of listed stocks, etc. on or after October 1, 2023, and who together with any company that is classified as a family company if that person is taken as the shareholder for the basis for the categorization, accounts for 3% or more of the total number of issued shares or capital.

2. In addition, from January 2013 to December 2037, a 2.1% special income tax for reconstruction is levied against the amount of income tax as a time-limited measure.

Source: Based on the web site of the Ministry of Finance.

Table XIV-7. Taxation of Dividend Income (withheld at source) (2022)

(millions of yen)

Classification	Amount paid			Withholding tax amount
		Taxable amount	Tax-exempt amount	
Dividends on profit or interest income, distribution of retained earnings, dividends, etc., / on interest on fund corporations, and Dividends, etc. of specified investment corporation investments	43,353,662	28,646,866	14,706,796	5,301,990
Distributions of profits of investment trusts and investment trusts with specific investment purposes	2,487,278	1,531,788	955,489	302,963
Remittance to optional withholding tax account	2,236,652	2,236,652	–	339,045
Total	48,077,592	32,415,307	15,662,285	5,943,998

Notes: 1. Bond investment trusts and investment trusts managing publicly offered bonds, etc., are not included in “investment trusts.”
2. “Taxable amount” includes not only that paid to individuals but also that to corporations.
3. As fractions were rounded to the nearest whole number, the figures may not add up to the actual total amounts.

Source: Compiled based on the data available on the website of the National Tax Agency of Japan.

income, the Income Tax Act allows the deduction of a certain percentage of dividend income (tax credits for dividends) to avoid double taxation.

For distributions, etc., of gains on publicly offered stock investment trusts and for dividends paid on listed stocks other than those paid on large shareholdings (those paid to a shareholder who holds 3% or more of the outstanding shares of a corporation), the payee of dividends has the option of adopting comprehensive taxation, separate taxation on the basis of self-assessment, or non-declaration of dividend income (withholding tax only on their dividend income). For a limited period, stockholders and investors enjoyed a preferential tax rate of 10% (10.147% in 2013) on this income. However, from 2014 to 2037, the rate is 20.315%, after which a tax rate of 20% will be applied. For a limited period, stockholders and investors have enjoyed a preferential tax rate of 10% (10.147% in 2013) even for separate taxation on the basis of self-assessment. However, from 2014 to 2037, the rate will be 20.315%, after which a tax rate of 20% will be applied. It was from 2009 that choosing the separate taxation on the basis of self-assessment became an option. Moreover, from 2010, investors have been able to combine dividends, etc., from listed stock, etc., in their withholding tax accounts. The term “listed stock, etc.,” refers to shares that are listed on domestic and foreign stock exchanges, as well as ETFs (exchange traded funds) and specified bonds.

Meanwhile, dividends on stocks other than listed stocks (unlisted stocks) and those received by large individual shareholders are subject to comprehensive taxation after paying a 20% withholding tax (20.42% from 2013 to 2037). In this case, shareholders have the right to select the non-declaration of dividends paid at one time of no more than the amount derived by proportionally dividing ¥100,000 over the dividend-computation period. However, local inhabitant tax is subject to comprehensive taxation.

Distributions of profit from publicly offered stock investment trusts are treated as dividend income when investors opt for the comprehensive taxation method, entitling the investors to tax credits. However, the rate of deduction varies depending on the ratio of foreign currency denominated assets and non-stock assets of the stock investment trust concerned. If the percentage of either foreign currency denominated assets or non-stock assets is over 75%, the deduction of dividends is not allowed. For profits distributed by privately placed stock investment trusts of the contractual type (see section 10 below), such dividends less withholding tax are subject to comprehensive taxation (dividends are deductible).

For the purpose of computing the amount of dividend income, interest paid on a debt incurred to acquire stocks, etc., may be deducted from the taxable income. However, this is allowed only when the investor files a tax return.

5. Adjustment of Double Taxation Relating to Dividends

Profits generated by a business corporation through its business activities should, basically, be returned to the owners of that corporation. However, corporate income is usually taxed twice: corporate income tax and individual income tax (dividend tax and capital gains tax). Considering that, ultimately, it is the individuals who have the duty of paying taxes, some adjustments have to be made to avoid double taxation. This is the question of consolidating corporate tax and an individual's income tax. Ideally, all forms of double taxation of corporate income—be it retained earnings or dividends—should be rectified. However, adjustments are chiefly made to the dividend portion.

In Japan, in the case of individual shareholders, a dividend tax credit system is applied that makes 10% of their dividend income from sources such as distribution from surplus ("dividend income") (and 2.8% for inhabitant tax) deductible from their tax liability. In the case of individual shareholders, a dividend tax credit system is applied that makes 10% of their dividend income (and 2.8% for inhabitant tax) deductible from their tax liability. However, in the case of those whose taxable income exceeds ¥10 million, 5% of such part of their dividend income that pushes their taxable income over and

Table XIV-8. Dividend Taxation and Double Taxation Adjustments in Major Countries

(As of January 2023)

	Japan (*Note* 2)	United States (*Note* 3)	U.K.	Germany	France (*Note* 8)
taxation system	Choice between Separate Declaration and Comprehensive Taxation (Separate declaration) 20.3% (income tax: 15% + Special income tax for reconstruction: 2.1% of the income tax amount + individual inhabitant tax: 5%) or (comprehensive taxation) 10% to 55.9%. *Note*: It is also possible to choose not to have to file a tax return with only withholding tax (20.3%)	Separate Declaration Taxation Tiered taxation (Federal tax) 3 levels 0, 15% and 20%. (*Note* 4) + Comprehensive taxation (state and local government tax) (*Note* 5) (In New York City 7.1 to 14.8%)	Separate Declaration Taxation Tiered taxation 3 levels 8.8%, 33.8% and 39.4%. (*Note* 6)	No need to file a tax return (withholding tax) ※Comprehensive taxation is also possible (*Note* 7) 26.4% (income tax: 25% + Additional tax: 5.5% of the tax amount)	Choice between Separate Declaration Taxation and Comprehensive Taxation (Separate taxation) 30% (income tax: 12.8% + taxes related to social security: 17.2%) or (comprehensive taxation) 17.2% to 62.2% (income tax: 0 to 45% + taxes related to social security: 17.2%)
Reconciliation with income taxes	Dividend income tax credit method (In the case of electing comprehensive taxation)	No preparation measures	A control and removal method (Deduct £2,000 of dividend income)	No preparation measures	A control and removal method (60% of dividends received are included in the shareholder's taxable income) (In the case of electing comprehensive taxation)

Notes: 1. The tax rate is rounded to one decimal place.
2. This refers to dividends on listed stocks, etc. (other than those paid to large shareholders).
3. This applies to qualified dividends (dividends received from domestic companies or qualified foreign companies on stocks held for more than 60 days during a total period of 121 days before and after the ex-dividend date).
4. Income is accumulated in the order of employment income, dividend income, and long-term capital gains, and the applicable tax rate is determined for each type of income. In addition, if gross income exceeds the threshold amount (single person: $200,000, couple: $250,000 on a combined basis), 3.8% tax is levied on the net investment income within the excess amount (interest, dividends, short-term/long-term capital gains, etc.)
5. Regarding state and local government taxes, the tax rates differ from place to place.
6. Income is accumulated in the order of employment income, interest income, and dividend income, and the applicable tax rate is determined for each type of income.
7. Comprehensive taxation can be applied by filing a tax return if this is more advantageous to the taxpayer than not filing a tax return. However, if the taxpayer is disadvantaged by the choice of comprehensive taxation after filing a tax return, the tax authorities will treat the capital income as if it were not declared and only withholding tax at the rate of 26.375% will be imposed.
8. As a limited-time measure from January 2012 until the fiscal deficit is resolved, an additional 3-4% tax will be imposed on the excess of taxable income plus certain deductions and other adjustments over the threshold amount (single person: EUR250,000, couple: EUR500,000).

Source: Compiled from the Ministry of Finance website.

above ¥10 million (and 1.4% for inhabitant tax) is deductible. For instance, when individual shareholders have a total taxable income of ¥13 million (¥9 million in general income and ¥4 million in dividend income), they are entitled to a tax deduction of 5% of such part of their dividend income that pushes their taxable income over and above ¥10 million, which is ¥3 million (=¥13 million − ¥10 million), and 10% of other part of their income, which is ¥1 million. Therefore, they are entitled to a tax deduction of ¥250,000 (¥150,000 (=(¥13 million − ¥10 million) × 0.05) + (¥100,000 (=(¥10 million − ¥9 million) × 0.1). In the US and Germany, no adjustment measures are used. In the UK and France, the partial dividend income deduction method is used.

In foreign countries, the imputation method was broadly adopted as a method to adjust for double taxation. In this method, dividends including corporate income tax are included in taxable income for the purposes of calculating income tax, and then the amount equivalent to corporate income tax is deducted from the calculated tax amount. The dividend tax credit (dividend-received deduction) employed in Japan and the partial imputation method employed in the UK are both types of imputation methods. Other methods used to adjust for double taxation include the dividend paid deduction method (which authorizes deduction of dividends paid on the corporate level from corporate taxable income) and the comprehensive business income tax method (CBIT). Interest and dividends are not deductible from taxable income on the corporate level, and such interest and dividends received by individuals are not subject to income tax.

6. Capital Gains Taxation

In 2003, the system of opting for a separate withholding tax or for separate taxation on the basis of self-assessment for gains on the sale of listed stocks, etc., was abolished, and these taxes were unified into the latter system of separately filing an income tax return. In other words, not taking into account the special income tax for reconstruction, a 20% tax rate (a 15% income tax and a 5% inhabitant tax) is applied to an amount of income arrived at by deducting the cost of acquiring or selling the security and interest paid on the fund used for the purchase of such security from the proceeds of such security. The capital gains from the sale of listed stocks, etc. may be treated so as to deal with issues related to taxable income based on withholding tax only using a specified account which will be discussed later. Previous to 2003, capital losses from the sale of stocks, etc., were deductible only from capital gains from the sale of other stocks, etc., if any, made during the same year, and it was not permissible to carry forward any unused losses. However,

Table XIV-9. Outline of the Capital Gains Taxation System for Stocks, Etc.

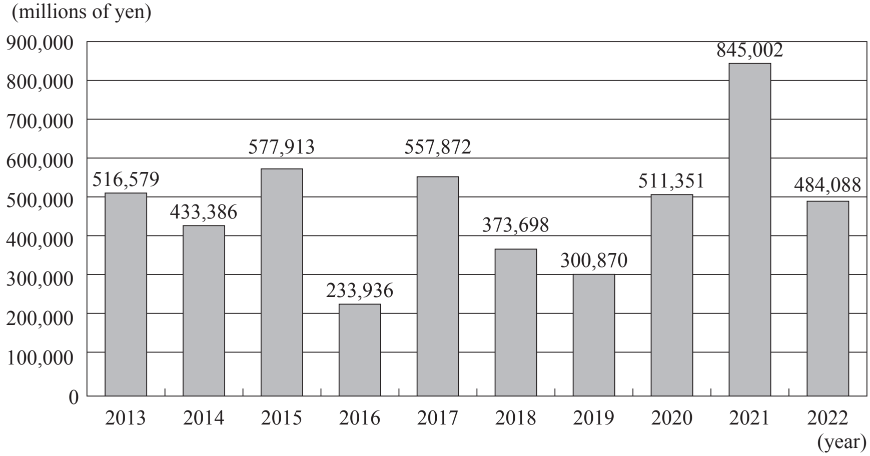
	Outline
Listed stocks, etc. ・Listed stocks ・ETF ・Publicly offered investment trusts ・Specified bonds, etc.	Separate taxation on the basis of self-assessment Capital gains on listed stocks, etc. ×20% (15% income tax: 5% inhabitant tax) *Special exception on no declaration necessary for withholding tax account For income maintained in a withholding account (specified account selected for tax withholding purpose) from the sale of listed stocks, etc. taxable-income-related issues may be completed based on withholding tax only. *Gain/loss offset and carrying-forward of unused deductible losses relating to listed stocks, etc. Losses from the sale of listed stocks, etc. may be deducted from the amount of dividend income, etc. on listed stocks, etc. for the same year. For unused deductible losses relating to unlisted stocks, etc., the investor may carry it forward for a three-year period starting from the following year as deduction from the amount of capital gains from listed stocks, etc. (Note 3) and the amount of dividend income, etc. from listed stocks, etc.
General stocks, etc. (Stocks, etc. other than listed stocks)	Separate taxation on the basis of self-assessment Capital gains on general stocks×20% (15% income tax, 5% inhabitant tax)

Note: From January 2013 to December 2037, a 2.1% special income tax for reconstruction is separately levied against the amount of base income tax as a time-limited measure.
Source: Compiled based on information available on the website of the Ministry of Finance.

since 2003, investors have been able to carry forward capital losses from the sales of listed stocks, etc., for three years starting with the year following their occurrence. Also, since 2009, investors have been able to deduct capital losses on listed stocks, etc., from dividends, etc., received from listed stocks, etc. Furthermore, starting in 2016, based on the change in the taxation method for bonds, etc., it became possible to offset income against losses for interest and capital gains from specified bonds, etc., and income from listed stocks, etc. Separate self-assessment taxation shall apply to general shares and similar.

Along with the abolition of the separate withholding tax system, the authorities sought to lessen the reporting burden on investors by establishing a special account system. Under this type of account, a securities company computes capital gains or losses, as the case may be, for its customer from the sale of shares of a listed stock, etc., made through a special brokerage ac-

Chart XIV-1. Withholding Taxes on Capital Gains on the Sale of Listed Stock, Etc., Managed in Special Brokerage Accounts



Source: Based on the website of the National Tax Agency of Japan.

count. The account is divided into two categories: the income tax withholding account and the simplified income tax return account (no tax is withheld). When an investor sells his shareholdings through the income tax withholding account, his securities company withholds the income tax, obviating the need for the investor to file an income tax return. Furthermore, from 2010, it became possible for the securities company to deposit dividends from listed stocks, etc. of customers that are subject to withholding tax in the income tax withholding account set up for the customers. However, if an investor using such an account also files a final return, the investor is also allowed to include capital gains or to offset capital losses from the sale of such shares through another account. When an investor opts for the income tax withholding account and does not file a final return, the spousal deduction is not affected. If an investor opts for the simplified income tax return account, they will be able to make a simple declaration using the annual statement of stock trading under a special brokerage account received from their securities company (From April 1, 2019, it is not required to attach this statement). Currently, securities companies must send an annual statement of stock trading to the customer and the tax office no matter what type of special brokerage account is selected by the customer. Additionally, due to changes in the taxation method for bonds, etc. starting in 2016, the scope of application of the special account has expanded.

7. The Angel Taxation System

The Angel Taxation System is a special taxation measure designed to encourage individual investors (angels) to invest in startup firms and was established by the amendment to the taxation system in 1997. Angels refer to individual investors who have invested in specified small to mid-sized companies, specified stock companies, and specified new small to mid-sized companies (specified small to mid-sized companies, etc.).

Specified small to mid-sized company means a joint stock company which falls under the category of specified new small to mid-sized company as defined in Article 6 of the Small and Medium-sized Enterprises Business Enhancement Act, etc. Specified stock company means a corporation that meets the following two requirements: (1) a joint stock company that falls under the category of specified new small to mid-sized company as defined in Article 6 of the Small and Medium-sized Enterprises Business Enhancement Act, etc. and (2) a joint stock company that has been in existence for less than one year since establishment and satisfies other prescribed requirements. A specified new small to mid-sized company is a joint stock company that falls under the category of specified new small to mid-sized company as defined in Article 6 of the Small and Medium-sized Enterprises Business Enhancement Act, etc. (limited to those whose period of establishment is less than one year and other prescribed companies).

For investments made before March 31, 2023, there are two types of preferential treatment that apply at the time of investment, A and B, as follows: Preferential treatment A (for companies established within the past five years): The amount of investment in the target company, less ¥2,000, is deducted from gross income for the year (can be selectively applied with preferential treatment B). However, the maximum amount of investment eligible for deduction is 40% of gross income or ¥10 million (¥8 million before 2021), whichever is lower. Preferential treatment B (for companies established within the past 10 years): The total investment in the target company is deducted from stock transfer profits for the year. There is no upper limit to the amount of investment eligible for deduction. There is also a preferential treatment that can be applied at the time of the stock sale. Not only can losses incurred from the sale of unlisted venture company shares be aggregated (offset) with other gains from the transfer of shares in the same year, but any losses not aggregated (offset) in a given year can be aggregated (offset) with gains from the transfer of shares successively over the following three years.

The 2023 tax reform created tax exemption measures for reinvestment in startups. This new measure means that when you sell your stock and reinvest in self-funded startups or startups at the pre-seed or seed stage, capital gains

Table XIV-10. Summary of Angel Taxation System

<table>
<tr><td colspan="7">1) Time of investment</td></tr>
<tr><td>Type of measure</td><td>Deductible items</td><td>Recipient of deductions</td><td>Details</td><td>Maximum deduction</td><td>No. of years since establishment</td><td>External capital ratio</td></tr>
<tr><td>Special provisions for starting a business</td><td>Full amount invested with own funds at the time of company establishment</td><td>Deduction from stock transfer profits for the year</td><td>Tax exempt</td><td>No upper limit (tax exempt up to ¥2 billion investment, any amount exceeding that is deferred taxation)</td><td>Less than 1 year</td><td>1/100 or more</td></tr>
<tr><td>Preferential treatment A</td><td rowspan="2">(Full amount invested in target company − ¥2,000)</td><td rowspan="2">Deducted from total income for that year</td><td rowspan="3">Deferred taxation</td><td rowspan="2">Gross income × 40% or ¥8 million, whichever is lower</td><td rowspan="2">Less than 5 years</td><td>1/6 or more</td></tr>
<tr><td>Preferential treatment A-2</td><td>1/20 or more</td></tr>
<tr><td>Preferential treatment B</td><td rowspan="2">Full amount invested in target company</td><td rowspan="2">Deduction from stock transfer profits for the year</td><td>No upper limit</td><td>Less than 10 years</td><td>1/6 or more</td></tr>
<tr><td>Pre-seed/seed stage special case</td><td>Tax exempt</td><td>No upper limit (tax exempt up to ¥2 billion investment, any amount exceeding that is deferred taxation)</td><td>Less than 5 years</td><td>1/20 or more</td></tr>
</table>

▼

<table>
<tr><td>2) At time of stock sale: Deduction for transfer loss carried forward</td></tr>
<tr><td>Not only can losses incurred from the sale of unlisted venture company shares be aggregated (offset) with other gains from the transfer of shares in the same year, but any losses not aggregated (offset) in any given year can be aggregated (offset) with gains from the transfer of shares successively over the following three years.

* Losses can be carried forward over the following three years if the startup company loses value due to bankruptcy, dissolution, etc., without being listed.
* If the investor received preferential treatment in the year of investment in a startup company, the loss on sale is calculated by subtracting the tax-deferred portion of the tax-deductible amount from the acquisition price.</td></tr>
</table>

Source: Ministry of Economy, Trade and Industry website.

on the reinvested portion are not subject to tax, and this applies to reinvestment after April 1st, 2023. The upper limit of capital gains is ¥2 billion, and taxation on the amount over the limit can be deferred. At the same time, the requirements for investment in self-funded startups and pre-seed/seed-stage startups were relaxed.

8. NISA

Based on the fiscal 2013 tax reform, NISA was introduced in January 2014. NISA is another word for a small amount investment tax-exemption scheme, the tax exemption measure on dividends and capital gains on small investments in listed stocks, etc., in tax-free accounts. NISA is modeled on the Individual Savings Account (ISA) — a preferential tax system for investments and savings introduced in the U.K. in 1999 — and it was initially referred to as the Japanese-version ISA. The "N" in NISA stands for NIPPON (Japan). Following the introduction of the Junior NISA in April 2016 and Tsumitate NISA in January 2018, the original instrument is referred to as the General NISA.

As of 2023, there are three types of NISA: General NISA, Tsumitate NISA

Table XIV-11. NISA up till 2023 (Old)

	General NISA	Tsumitate NISA	Junior NISA
Start	From January 2014	From January 2018	From April 2016
Tax-exempt holding period	5 years	20 years	5 years
Annual tax-fee investment limit	¥1.2 million	¥400,000	¥800,000
Investment products	Listed stocks, ETFs, publicly offered stock investment trusts, REITs, etc.	Certain investment trusts suitable for long-term, accumulation and diversified investment	Same as General NISA
Purchase method	Normal purchase and accumulation investment	Accumulation investment only (purchase based on accumulation investment contract)	Same as General NISA
Withdrawal restrictions	None	None	Yes
Notes	General NISA and Tsumitate NISA are selectable on an annual basis.		To end at end-2023

Source: Compiled from FSA website.

Table XIV-12. NISA from 2024 (New)

	Tsumitate quota	Growth quota
Utilization of systems	Can be used in combination	
Annual investment limit	¥1.2 million	¥2.4 million
Tax-exempt holding period	Indefinite	Indefinite
Limit of tax-exempt holding (Total limit)	¥18 million (Limit can be reused)	
		¥1.2 million (within Growth quota limit)
Account opening period	Permanent	Permanent
Investment products	Certain investment trusts suitable for long-term accumulation and diversification	Listed stocks/investment trusts, etc
Eligible age	18 years and upward	18 years and upward
Relationship to old system	Products invested in the General NISA and the Tsumitate NISA by the end of 2023 are tax-exempt under the old system and outside the new system (rollover from old system to new system not allowed).	

Source: Compiled from FSA website.

and Junior NISA. tax-exempt holding period of the General NISA is five years, with an annual tax exemption limit of ¥1.2 million, and the investments that can be held are listed stocks and publicly offered stock investment trusts. In contrast, the tax-exempt holding period of the Tsumitate NISA is 20 years, with an annual tax exemption limit of ¥400,000, and the investments that can be held are certain investment trusts suitable for long-term accumulation and diversification. The two NISAs cannot be held in combination and only one of them can be selected. The General NISA and the Tsumitate NISA are available to adults, while the Junior NISA is available to minors. The tax-exempt holding period of Junior NISA is five years, with an annual tax exemption limit of ¥800,000, and the investments that can be held are the same as those for the General NISA. In principle, no withdrawals are allowed until the holder turns 18 years old. The Junior NISA is to be abolished at the end of 2023 under the 2020 tax reform, and new purchases will not be allowed after 2024.

The 2023 tax reform radically expanded the NISA and made it permanent. From 2024, there will be a Tsumitate quota and a Growth Quota, and these can be used on a combined basis. The annual investment limit is ¥1.2 million for the Tsumitate quota and ¥2.4 million for the Growth quota. Therefore, the effective annual contribution limit is ¥3.6 million. The limits reapply annually up to a combined upper tax-exempt holding limit for the two quotas of ¥18 million (including ¥12 million limit for the Growth Quota). The tax-exempt holding period is unlimited and the period during which an account can be opened is indefinite. The investments covered under the Tsumitate Quota are the same as for the Tsumitate NISA, namely specified investment trusts suitable for long-term accumulation and diversification. The Growth Quota covers listed stocks and investment trusts. Investments in the General NISA and the Tsumitate NISA as of the end of 2023 are outside the new system, and the tax exemption rules under the old system apply. Rollover from the old system to the new system is not allowed.

9. Taxation of Nonresidents

The Income Tax Act of Japan divides individuals into residents and nonresidents. Residents are individuals who have a domicile in Japan or a temporary residence at which they have been living for one year or more. All individuals other than residents are deemed nonresidents. Of the residents, individuals who do not have Japanese citizenship and who have or have had a domicile in Japan or a temporary residence at which they lived for a total of no more than five years in the past 10 years are referred to as non-permanent residents. The entire income (worldwide income) of residents other than non-permanent residents is subject to income tax. For non-permanent residents, income other than foreign source income and foreign source income (limited to income earned in Japan or income remitted to Japan) is taxable. And for nonresidents, tax is imposed on their domestic source income only. The method of imposition of income tax for nonresidents, i.e. whether the comprehensive taxation applies or the separate withholding tax applies, varies depending on the type of domestic source income, whether the nonresident has a permanent establishment (PE) in Japan or not, and whether the domestic source income is traced to the PE. A permanent establishment (PE) refers to: (1) a branch PE (a place in Japan where a non-resident, etc. manages a business, a branch, office, factory, or workshop, mine, oil or natural gas well, quarry or other place where natural resources are extracted); (2) a construction PE (a long-term construction site, etc. in Japan for non-residents, etc.); (3) an agent PE (agents, etc. based in Japan on behalf of non-residents, etc. who meet certain requirements).

For example, looking at the taxation system for interest and dividends, of the domestic source income of a nonresident, etc., income attributable to a permanent establishment of the nonresident, etc. (income attributable to PE) is subject to comprehensive taxation after withholding at the source, while income other than that corresponding to income attributable to PE is subject to a separate withholding tax. The withholding tax rate is 15.315% and

Table XIV-13. Outline of Matters Related to Taxation of Nonresidents, Etc.

<table>
<tr><th rowspan="2">Nonresident category / Type of income</th><th colspan="2">Nonresidents with a permanent establishment in Japan</th><th rowspan="2">Nonresidents without a permanent establishment in Japan</th><th rowspan="2">Withholding tax</th></tr>
<tr><th>Income attributable to permanent establishment</th><th>Other income sourced in Japan</th></tr>
<tr><td>(Business income)</td><td rowspan="3">[Comprehensive taxation]</td><td colspan="2">[Tax-Exempt Income]</td><td>None</td></tr>
<tr><td>(1) Income arising from investment/holding of assets
*Excluding those corresponding to (7) through (15) below</td><td colspan="2" rowspan="2">[Comprehensive taxation (partial)]</td><td>None</td></tr>
<tr><td>(2) Income arising from transfer of assets</td><td>None</td></tr>
<tr><td>(3) Distribution of business profit of partnership</td><td rowspan="13">[Separate withholding tax followed by comprehensive taxation]</td><td colspan="2">[Tax-Exempt Income]</td><td>20.42%</td></tr>
<tr><td>(4) Proceeds from sales of land, etc.</td><td colspan="2" rowspan="3">[Separate withholding tax followed by comprehensive taxation]</td><td>10.21%</td></tr>
<tr><td>(5) Compensation for personal services</td><td>20.42%</td></tr>
<tr><td>(6) Rental income, etc., from real estate</td><td>20.42%</td></tr>
<tr><td>(7) Interest, etc.</td><td colspan="2" rowspan="9">[Separate withholding tax]</td><td>15.315%</td></tr>
<tr><td>(8) Dividends, etc.</td><td>20.42%</td></tr>
<tr><td>(9) Loan interest</td><td>20.42%</td></tr>
<tr><td>(10) Usage fees, etc.</td><td>20.42%</td></tr>
<tr><td>(11) Salary or other remuneration for personal services, public pension income, severance pay, etc.</td><td>20.42%</td></tr>
<tr><td>(12) Prize money from business advertising and promotion</td><td>20.42%</td></tr>
<tr><td>(13) Annuity income, etc., from life insurance contract</td><td>20.42%</td></tr>
<tr><td>(14) Interest payment from investment savings plan</td><td>15.315%</td></tr>
<tr><td>(15) Distribution of profit from anonymous partnership, etc.</td><td>20.42%</td></tr>
<tr><td>(16) Other income sourced in Japan</td><td>[Comprehensive taxation]</td><td colspan="2">[Comprehensive taxation]</td><td>None</td></tr>
</table>

Notes: 1. Income attributable to permanent establishment may overlap with income sourced in Japan provided in (1) through (16) above.
2. Regarding income generated from by the transfer of assets in Table 2 above, apart from income corresponding to permanent facility-related income, only income listed under Article 281 Paragraph 1, Items 1 to 8 of the Enforcement Ordinance of the Income Tax Act is subject to tax.
3. Based on the provisions of the Act on Special Measures Concerning Taxation, certain income included in the income subject to comprehensive taxation in the above table may be applicable for separate taxation on the basis of self-assessment or separate withholding tax.
4. Based on the provisions of the Act on Special Measures Concerning Taxation, withholding tax rates relating to certain income among the withholding tax rates in the above table may be reduced or exempted in some cases.

Source: Complied from "Withholding Tax Basics," FY2023 edition, National Tax Agency of Japan.

20.42%, respectively. The withholding tax rates applied to nonresidents and foreign corporations are finally determined in accordance with the tax treaties Japan has signed with the countries where nonresidents, etc. receiving the payments reside.

Japanese government bonds owned by nonresidents are tax exempt. In other words, interest on government bonds held by a nonresident without a permanent establishment in Japan in an account with a specified central custody and transfer agent or a qualified foreign intermediary is exempt from income tax if it meets certain conditions. In addition, even if interest on book-entry government bonds is not tax-exempt, the withholding tax rate on the interest may be reduced if a tax treaty has been concluded between Japan and the non-resident's country of residence.

10. Tax Treatment of New Products

(1) New types of investment trusts

Profits received from a privately placed stock investment trust of the contractual type are, in principle, subject to a withholding tax and then are taxed comprehensively together with other incomes of the recipients of such profits. The tax credit for dividends is also applied, and when the recipient meets certain requirements, he is exempted from the requirement of filing an income tax return. Capital gains from selling beneficiary certificates of such investment trusts are subject to separate taxation on the basis of self-assessment. Profits received from an investment trust managing privately placed bonds are subject to a separate withholding tax, and capital gains, are currently subject to separate taxation on the basis of self-assessment. Tax rates related to open-ended investment trusts and closed-end (listed) investment trusts are the same as those applied to listed stocks. In other words, on dividends received from open-end investment trusts, a withholding tax of 20.315% is imposed before comprehensive taxation, separate taxation on the basis of self-assessment, or non-declaration. A credit for dividends is not applied when the comprehensive taxation is selected on dividends. Capital gains associated with open-ended corporation type investment trusts are subject to the separate taxation on the basis of self-assessment. On the other hand, dividends received from closed-end (unlisted) or privately placed investment trusts are subject to a withholding tax of 20.42% and then to comprehensive taxation. A taxation system is selected that does not require the declaration of such income when certain requirements are satisfied. A credit for dividends is not applied when the comprehensive taxation is selected on dividends. Capital gains associated with open-ended corporation type investment trusts are subject to the separate taxation on the basis of self-assess-

Table XIV-14. Outline of Taxation Framework for New Investment Trusts

<table>
<tr><th colspan="4" rowspan="2">Classification</th><th rowspan="2">Profit distribution, etc.</th><th colspan="2">Cancellation (redemption) gains</th><th rowspan="2">Capital gains</th></tr>
<tr><th>Dividend (interest) Income portion</th><th>Deemed capital gains/losses portion</th></tr>
<tr><td rowspan="2">Contractual type</td><td colspan="3">Privately placed stock investment trusts</td><td colspan="2">Comprehensive taxation (dividend income for general stocks, etc.)[1]</td><td colspan="2">Separate taxation on the basis of self-assessment (capital gains on general stocks, etc., 20.315%)</td></tr>
<tr><td colspan="3">Investment trusts managing privately placed asset-management trust bonds, etc.</td><td colspan="2">Separate withholding tax (20.315%)</td><td colspan="2">Separate taxation on the basis of self-assessment (capital gains on general stocks, etc., 20.315%)</td></tr>
<tr><td rowspan="4">Corporation type</td><td rowspan="3">Publicly offered</td><td colspan="2">Open-end type</td><td colspan="2" rowspan="2">Comprehensive taxation · Separate taxation on the basis of self · assessment (dividend income for general stocks, etc.)[2]</td><td colspan="2" rowspan="2">Separate taxation on the basis of self-assessment (capital gains on general stocks, etc., 20.315%)</td></tr>
<tr><td rowspan="2">Closed-end type</td><td>(Listed)</td></tr>
<tr><td>(Unlisted)</td><td colspan="2" rowspan="2">Comprehensive taxation (dividend income for general stocks, etc.)[1]</td><td colspan="2" rowspan="2">Separate taxation on the basis of self-assessment (capital gains on general stocks, etc., 20.315%)</td></tr>
<tr><td colspan="3">Privately placed</td></tr>
</table>

Notes: 1. Withholding tax at 20.42% at time of receipt. Final income tax return is required except for small dividends.
2. Withholding tax at 20.315% at time of receipt. Taxpayer may choose not to take any further action; neither comprehensive taxation, separate taxation on the basis of self-assessment nor final income tax return.

Source: Compiled based on the information available in "FY2023 Zeikin no Chishiki (knowledge on taxes)" by SMBC Nikko Securities Solution Advisory Division; CHUOKEIZAI-SHA, INC.; pp122 and 129.

Table XIV-15. Taxation on Stock Options

	At grant of stock options	At exercise of stock options	At the sale of stocks
Qualified stock options	–	–	Separate taxation on the basis of self-assessment on (selling price - exercise price) (Note)
Non-qualified stock options	–	Comprehensive taxation on (market value of stocks at exercise-exercise price)	Separate taxation on the basis of self-assessment on (selling price - market value of stocks at exercise) (Note)

Note: Taxed as income on the sale of stocks.

ment. For REITs (real estate investment trusts), if listed would be closed-end, but dividends and capital gains from the sale of listed REITs are subject to the similar taxation as listed stocks. However, a credit for dividends is not applied when comprehensive taxation is selected on dividends.

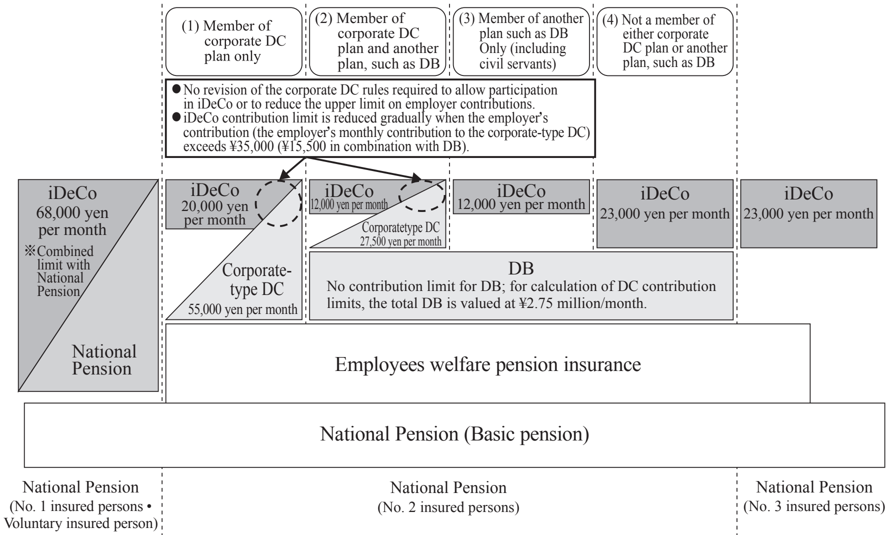
(2) Stock options

The stock option system is a system under which a company grants its officers and employees the right to purchase its stocks at a certain price (exercise price) for a certain period (exercise period). The company then pays its officers and employees remunerations linked to any increase in its stock price. Stock option is classified into a qualified stock option and a non-qualified stock option, depending on whether it satisfies the requirements stipulated in the Act on Special Measures Concerning Taxation or not. The former is tax deductible on economic benefits gained from its exercise (the difference between the market price and the exercise price). When selling stocks acquired through rights exercise, separate taxation on the basis of self-assessment is applied on the difference between the selling price and the exercise price. For the latter non-qualified stock option, comprehensive taxation is imposed on economic benefits gained from its exercise. Separate taxation on the basis of self-assessment is imposed on the selling price of stocks issued on the exercise, deducting the market price of the stocks at the time of exercise, when the stocks are sold.

11. Tax Treatment of Pension-Type Products

A defined contribution pension plan (the Japanese version of the 401(k) plan) was introduced in October 2001. The defined contribution pension plan is a private pension plan whereby an employee participating in the plan gives instructions about investing his or her contributions, with the understanding that pension benefits may vary depending on the results of such investment. It is divided into the individual type (iDeCo), in which the individual himself makes contributions, and the corporate type, in which the company in principle makes contributions on behalf of its employees. In order to encourage the spread of pension products based on such a system and to enhance the efficiency of the management of such plans, it is essential to give a fixed tax incentive. And in devising such a taxation system, due care must be exercised in striking a suitable balance between the taxation system for such pension plans and that for other pension plans as well as in the transferability of pension assets when changing jobs. Furthermore, from December 1, 2024, the contribution limit for corporate-type DCs and iDeCo will reflect the amount equivalent to contributions for other systems such as defined contribution

Chart XIV-2. Defined contribution plan eligibility and contribution limits (through September 2024)



Source: Ministry of Health, Labor and Welfare website.

plans.

Tax measures for defined contribution plans are as follows.

(1) The business owner's contribution is treated as an expense for the company. On the other hand, the employee's contribution is eligible for income deduction (small enterprise mutual relief deduction). In January 2012, so-called "matching contributions", allowing employees to make additional contributions in corporate pension plans, was introduced. In addition, the "iDeCo plus" payment system was introduced in May 2018 for iDeCo scheme members who work for small and medium-sized businesses.

(2) At the management stage: The balance of reserves for a pension plan of the individual type and that of the corporate type are subject to a special corporate tax of 1.173% (1% in national tax and 0.173% in local tax). However, this provision has been frozen until March 31, 2026.

(3) At the stage of benefit payment: (i) Old-age pension benefits: The beneficiary can receive pension benefits from the reserve in five or more annual installments or in a lump sum. When the beneficiary opts for benefits in installments, such benefits are deductible from taxable income. It has been noted that income deductibility for benefits such as public pensions is overly generous for high-income pensioners. The system came under review in the

Table XIV-16. Tax Treatment of Defined Contribution Pension Plans

Division			Outline
Contribution stage:			Counted as a loss of the employer
	Portion borne by the employer		
	Premiums paid by employee		Premiums to small-scale company mutual aid association are deducted as a loss (Note)
Management stage:			Special corporate income tax is applied (frozen until the end of Fiscal 2025)
Benefits payment stage:			
	Old-age benefits	Pension	Miscellaneous income (deduction for public pensions is applied)
		Lump sum	Retirement income (deduction for retirement income is applied)
	Disability benefits	Pension	Income and inhabitants' taxes are deductible
		Lump sum	
	Lump-sum payment at the time of death		Taxed as an inheritance income
	Lump-sum payment at the time of withdrawal		Occasional income

fiscal 2018 amendment to the taxation system. (ii) Benefits for persons with disabilities: When a beneficiary has disabilities of a certain level, the beneficiary can receive the payment of benefits from the month in which he or she is disabled, and the benefits are exempted from income tax and inhabitant tax. (iii) Death benefits: Death benefits paid in a lump sum to the survivors when the subscriber died are deemed as inherited property, and up to ¥5 million for each legal heir is exempted from inheritance tax. (iv) Withdrawal benefits: Benefits can be paid in a lump sum upon withdrawal from a pension plan if certain criteria are fulfilled and they are subject to income tax and inhabitant tax.