

# 2 Toward Improvement of Business Environment

With the goal of creating employment and innovation by attracting excellent human resources and technologies to Japan, the government has announced its target of increasing inward foreign direct investment (FDI) stock to 35 trillion yen by 2020 as one of the priority issues in its growth strategy.

Attracting foreign companies and promoting domestic establishment is a global locational competition with other countries and regions, and it is critical in “making business easier.” Therefore, in recent years, the government is working on various measures with the aim of making Japan “the most business-friendly country in the world.”

This chapter will lay out and describe the initiatives by the government in contributing to the improvement of the business environment in Japan and attraction of foreign companies cored around “Growth Strategy 2018” approved by the Cabinet in June 2018 and other related measures.

## 1. Further improving the business environment and contributing to more inward FDI into Japan

### (1) Establishment of project-based “Regulatory Sandbox” system

– a mechanism to lead to deregulation using demonstrated data gathered by “try first” approach

In response to the order for enforcement of the Act on Special Measures for Productivity Improvement (June 6, 2018), the government of Japan (GoJ), on the same day, organized the GoJ’s Regulatory Sandbox Team at the Japan Economic Revitalization Bureau of the Cabinet Secretariat, and started preliminary consultations and acceptance of applications (Chart 2-1).

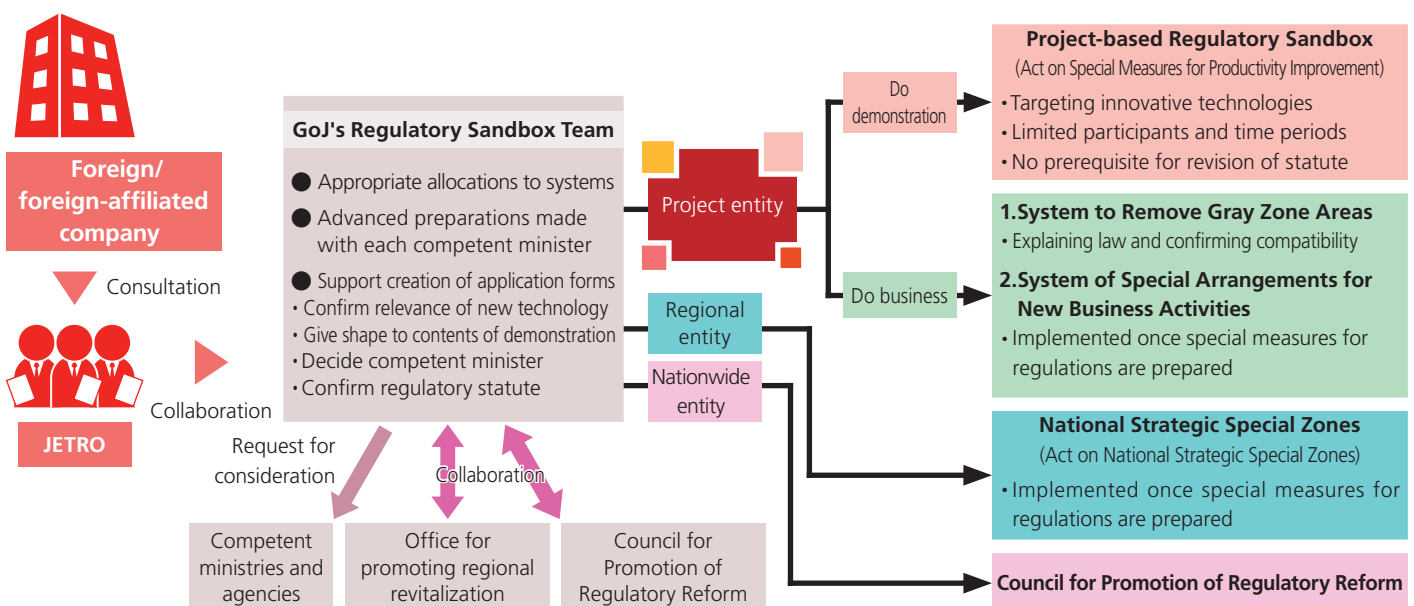
The project-based “Regulatory Sandbox” system creates an environment where innovative technologies and business models can be demonstrated without restrictions being imposed by existing regulations while making sure the participants and periods are limited, to enable data collection that will lead to swift validation and regulatory reform [Note 1]. Regarding demonstration plan applications from enterprises, the minister in charge makes the approval after listening to the opinion of a committee configured of experts. This differs from the conventional “System to Remove Gray Zone Areas” [Note 2] and “System of Special Arrangements for New Business Activities” [Note 3] in that it is a system featuring a “try first” approach to collect the necessary data for deregulating, with policy being formed via “dialogue with the market.” After completion of the demonstration period, the minister with regulatory jurisdiction will review the regulations based on the data obtained via demonstration.

There are systems with a similar concept mainly used in the field of FinTech in other countries; however, with the newly established Japanese system, wide-ranging applications are accepted regardless of the field of industry, the applying company’s size or whether the applicant is a Japanese or foreign corporation.

To put innovative technologies and business models to practical use, business opportunities must not be missed, thus it is essential to move swiftly while proceeding with procedures. Thus, while placing importance on making the approval process swift from the point of application at the GoJ’s Regulatory Sandbox Team [Note 4], it will appropriately allocate consultations from enterprises to each system, and make advanced preparations with each competent ministry and agency, as well as support for the creation of application forms.

As the point of initial contact for foreign companies and foreign-affiliated companies, JETRO works to introduce this system domestically and internationally as well as liaise and coordinate with the GoJ’s Regulatory Sandbox Team.

Chart 2-1 Project-based “Regulatory Sandbox” system and its relationship to other systems for revising regulations



[Source] Innovative Technology/Businessmodel Evaluation Committee for Regulatory Sandbox in Japan

[Note 1] Envisaged as a system to be applied when companies start new businesses that are not envisaged by existing regulations. It is a system to encourage development of business models through trial and error in order to foster new innovative businesses; hence, it is compared to "playing in a sandbox."

[Note 2] A system to enable enterprises to stably start new businesses, provide alignment to specific business plans and confirm in advance whether or not regulations will apply, even when the applicable range of current regulations is unclear.

[Note 3] A system where enterprises planning new businesses make proposals on special regulatory measures, and the system is then used to approve the special regulatory measures on a corporation basis, on condition that safety can be assured.

[Note 4] After the minister in charge receives the application, the committee that evaluates new business activities will forward their opinion to the minister in question within one month, and the company in question will be notified of approval or disapproval within one month of the committee's opinion being received by the minister.

## (2) Moves toward improvement of World Bank "Doing Business" ranking

The government has set key performance indicators (KPI) for its growth strategy that look to get Japan into the top three of OECD member countries in terms of World Bank business environment rankings by 2020. However, Japan is still at 25th among OECD countries (39th in overall terms) of the rankings for 2019 (published in October 2018) (Chart 2-2).

In an effort to improve this ranking, the government set up the "liaison meeting of ministries and agencies concerned with improving business environment" to promote consideration of initiatives to improve the business environment in the fields of evaluation as well as consider the areas ((1) Online and one-stop administrative services for incorporation of companies, (2) Evolution of information technology for court proceedings, etc., and (3) Overall optimization of trade proceedings) with greatest leeway for improvement in terms of international evaluation, which is notably low.

The following introduces an outline of formulated policy.

### ① Incorporation of companies – Realize completion of formalities within 24 hours during FY2019

In the World Bank rankings, Japan is ranked low in the field of "Starting a business" (30th out of 36 OECD member countries in 2019), with main factors noted as numerous necessary formalities/procedures and the number of days required regarded as excessive.

Based on the results of consideration at the "meeting to discuss online and one-stop administrative services for incorporation of companies" set up in September 2017, the following: (i) realizing a one-stop administrative service

using the national identification number (My Number) portal (Mynportal) [Note], (ii) online processing of procedures to establish a company in under 24 hours, (iii) rationalizing attestation of the articles of incorporation when a company is being established and (iv) making seal certificate optional were worked into the "Growth Strategy 2018", including their implementation periods.

Formerly, some seven days were required to complete review of application for registration of incorporation, but, as of March 2018, this has been reduced in principle to within three days by using priority processing and, moreover, the review work proceeds digitally. In FY2019, the aim is to achieve online registration of incorporation within 24 hours.

Furthermore, in 2020, the multiple application points will be unified into a one-stop administrative service, with the aim being to achieve an online service where users can complete all 12 formalities required in a registration of incorporation in one application process.

Enabling processing of incorporation procedures online and in a one-stop administrative service has been earmarked as a flagship project in the government's push for digital government. If the scheme is realized, the environment for performing incorporation procedures will become one task doable in one day, leading to the prospect of a big contribution to the improvement of Japan's business environment ranking.

[Note] Mynportal is an online service operated by the government. It mainly serves as a portal site where personal information related to the national identification number (My Number) system can be checked.

### ② Evolution of information technology for court proceedings, etc

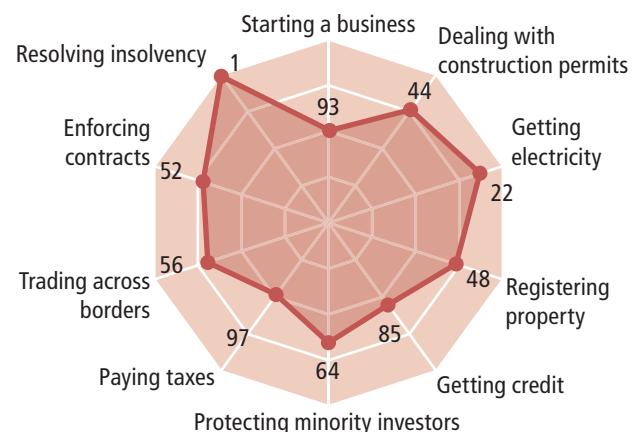
Among the items evaluated in the World Bank's business environment ranking system, in "Enforcing contract", the index for Japan's automation of court proceedings using information technology (IT) is evaluated as being low. Hence, in a move to improve that, the government set up a committee to consider the evolution of IT for court proceedings in October 2017 and has been considering measures for that since then.

As a result, while respecting autonomous decisions by the judicial branch, the complete use of IT in court proceedings related to civil action suits is now being aimed for. Indeed, the intention is to also expand this to cover introduction of web conferences for court cases.

From here on, in a move toward realizing online petitions, the Ministry of Justice will speedily consider and prepare the issues, and are going to decide the start time of such petitioning in FY2019. Moreover, regarding the introduction of web conferences, swift consideration and preparation will be promoted with the aim of starting around FY2022.

Chart 2-2 Japan's overall ranking

2019	
1	New Zealand
2	Singapore
3	Denmark
4	Hong Kong
5	Korea, Rep
6	Georgia
7	Norway
8	US
32	France
33	Poland
34	Portugal
35	Czech Republic
36	Netherlands
37	Belarus
38	Switzerland
39	Japan



[Notes] Numbers indicate the rankings out of 190 countries.

[Source] "Doing Business 2019" (World Bank)

### ③ Improvement of trade proceedings and port logistics, etc.

In the “Trading across borders” items ranked by the World Bank, the time and cost involved in border compliance for actual freight is ranked comparatively low for both export and import.

In October 2017, the government set up the “public and private council to examine trade procedures” that has pushed ahead with deliberations about optimization that will achieve reductions in freight holding time. As a result, the aim is to push ahead with an initiative to bring together the government, port operators, port stakeholders and users to work toward improving freight holding by shortening the deadline times for delivering freight to container yards and solutions to alleviate congestion at ports. Also, other points to be discussed are digitalization of information across all areas of trade and the promotion of data usage between stakeholders.

### ④ Liaison meeting of ministries and agencies concerned with improving business environment

In December 2017, the government set up the “liaison meeting of ministries and agencies concerned with improving business environment” to create an opportunity for related ministries and agencies to come together and continuously discuss ways of improving the business environment further.

Based on the discussion in the meeting, the aim is to push ahead with the following initiatives to raise the business environment to the highest level in the world: (i) online and one-stop administrative services for incorporation of companies, (ii) evolution of information technology for court proceedings, etc., (iii) improvement of trade proceedings and port logistics, (iv) digitalization of services related to real estate deals, (v) online simplification of proceedings related to construction and (vi) simplification of proceedings related to tax and social insurance.

The World Bank’s rankings are based on answers to a survey distributed to people cooperating in the ranking study of each country, but, according to the liaison meeting of ministries and agencies, some parts of the analysis differ to the current legal system and the actual state of business in Japan. Thus, the government is working to get the World Bank to provide an accurate reflection of the Japanese business environment by recommending the appropriate people to cooperate in the ranking study and providing constructive information.

### (3) 20% reduction in cost for administrative procedures

To alleviate the burden from administrative procedures on enterprises and enhance productivity, in the Council for Promotion of Regulatory Reform meeting in March 2017, the government decided to reduce the cost (work time of enterprises) for administrative procedures by 20% by March 2020 and adopted three simplifying principles: (1) thorough digitalization of administrative procedures [digital-first principle], (2) no second request for the same information to businesses [once-only principle] and (3) unification of documentary formats. Based on these decisions, each ministry and agency formulated the basic implementing plans (simplification plans) in June 2017.

In order to examine the issues across a wide spectrum, including the setting of details and goals for initiatives to be undertaken by ministries and agencies, the Subcommittee for Administrative Burden Reduction of the Council for Promotion of Regulatory Reform set up two deliberation teams in August 2017, and they focused on examining the issues across seven months. Specifically, the teams laid out a revised policy for the basic implementing plans in which excellent instances of work undertaken by a certain ministry or agency should be expanded to other ministries and agencies. They also picked up on strong requests about certain issues from enterprises in order to demand that ministries and agencies work to simplify the issues in question.

Greater scrutiny was applied to fields and items that have a big impact on small and medium-sized enterprises, such as the individual fields of social insurance and subsidies. In addition, based on a chain of events, including decisions to “make administrative services 100% digital” and to “abandon the practice of attaching documents” at the government’s IT strategic headquarters (December 2017) and the e-government cabinet meeting (January 2018), the focus of attention was the methods for simplifying procedures, in particular the use of “digitalization” to achieve that. Based on the results of these examinations of issues, ministries and agencies revised their basic implementing plans by March 2018.

According to the “Third Report by the Council for Promotion of Regulatory Reform - For New Era to Come -”(June 2018), the annual cost in time expended in targeted fields (business licensing, and procedures related

**Chart 2-3 Prospect of administrative procedure costs and number of hours reduced by area**

	Target cases/procedures for basic plan formulation	Target cases/procedures for cost measurement	Number of Hours Spent		Number of Hours Reduced		Reduction Rate
	Total Number of Cases Processed (Number of Procedures Processed)	Total Number of Cases Processed (Number of Procedures Processed)	(Equivalent Monetary Value)	Per Case	(Equivalent Monetary Value)	Per Case	
Business Licensing	6,519,196 cases (786 procedures)	5,253,226 cases (330 procedures)	141.73 million hours (360.4 billion yen)	27.0 hours	29.6 million hours (75.3 billion yen)	5.6 hours	20.9%
Social Insurance	62,716,706 cases (105 procedures)	56,806,812 cases (28 procedures)	122.11 million hours (310.5 billion yen)	2.1 hours	29.22million hours (74.3 billion yen)	0.5 hours	23.9%
Surveys and Statistics	7,169,681 cases (153 procedures)	6,811,452 cases (98 procedures)	23.93 million hours (60.9 billion yen)	3.5 hours	5.62 million hours (14.3 billion yen)	0.8 hours	23.5%
Labor Management	3,304,726 cases (71 procedures)	3,013,296 cases (15 procedures)	15.14 million hours (38.5 billion yen)	5.0 hours	3.06 million hours (7.8 billion yen)	1.0 hour	20.2%
Subsidies	297,660 cases (74 procedures)	292,598 cases (56 procedures)	11 million hours (28 billion yen)	37.6 hours	2.3 million hours (5.8 billion yen)	7.9 hours	20.9%
Commercial Registration	998,850 cases (33 procedures)	595,272 cases (2 procedures)	8.53 million hours (21.7billion yen)	14.3 hours	1.71 million hours (4.3 billion yen)	2.9 hours	20.0%
Certificate of Employment	2.46 million cases (1 procedure)	2.46 million cases (1 procedure)	5.56 million hours (14.1billion yen)	2.3 hours	1.64 million hours (4.2 billion yen)	0.7 hours	30.0%
<b>Total</b>	<b>83,466,819 cases (1,223procedures)</b>	<b>75,232,656 cases (530procedures)</b>	<b>328 million hours (834.1 billion yen)</b>	<b>4.4 hours</b>	<b>73.15 million hours (186 billion yen)</b>	<b>1.0 hour</b>	<b>22.3%</b>

[Source] Third report by the Council for Promotion of Regulatory Reform - For New Era to Come-(June 4, 2018, Council for Promotion of Regulatory Reform)

to social insurance and subsidies, etc.) before procedure reductions (simplifications) were made amounted to 328 million hours (834.1 billion yen). This was the first time in Japan that administrative procedure costs had been enumerated, which means the reduction (simplification) benefit can be quantitatively evaluated now. Furthermore, the cost reduction benefit resulting from the basic implementing plans after the revisions are expected to be 73.15 million hours annually (186 billion yen, 22.3% reduction) (Chart 2-3). As this reduction benefit will continue each year, it can be expected to contribute massively to the reform of the Japanese business environment if the implementing plans succeed.

From here on, the government will periodically follow up on the implementing plans as well as horizontally develop it in regional local governments; therefore, the government is asking those local governments to understand and cooperate in reducing administrative procedure costs.

### (4) Inviting more foreign professionals into Japan

#### ① Inviting more foreign entrepreneurs – extending period of stay to maximum of one year for preparation of starting a business

The government is putting a lot of effort into inviting more highly skilled foreign professionals, including the establishment of a “Japanese Green Card for Highly Skilled Foreign Professionals.” With an even greater call for foreign entrepreneurs being made in “Growth Strategy 2018,” the government has outlined a policy to commence a “Startup Program (provisional name).”

Normally, for foreigners to start up a business in Japan, they need “Business Manager” status of residence to allow them to do business, with those requirements entailing: (1) the opening of an office and (2) two or more full-time employees or a domestic investment of more than five million yen. With the special exemptions for entrepreneurial professionals in the current National Strategic Special Zones (Tokyo, Fukuoka City, etc.), if the feasibility of achieving a business plan can be proven through screening by a local government, then, normally, the preconditions for obtaining the required status of residence upon arrival into Japan are set as being fulfillable within six months of arrival, and entry to Japan is granted.

In contrast, with the “Startup Program (provisional name),” the aim is to expand the special exemption for entrepreneurial professionals being applied in some regions of the National Strategic Special Zones to the whole of Japan as well as extend the usual status of residence length of six months for preparation of starting a business to one year. Hence, as a program to support startup activities, such as implementing supervision and support measures for structuring a consultation system, the “Startup Program (provisional name)” is scheduled to commence operation in 2018.

#### ② Establishment of new status of residence for working in Japan

There is a critical shortage of workers in Japan, especially in small and medium-sized enterprises. This difficulty in obtaining workers also is a major obstacle that prevents foreign-affiliated companies from expanding business in Japan.

Under these conditions, in the “Basic Policy on Economic and Fiscal Management and Reform 2018” and the “Growth Strategy 2018,” the government announced a policy to establish a new status of residence for expanding the acceptance of foreign manpower with certain levels of expertise and technical skill. This actual opening of the door to foreigners in work fields that have in principle not been allowed up to now is drawing a lot of attention as a massive policy shift.

According to the “Basic Policy on Economic and Fiscal Management and Reform 2018,” technical skills and Japanese ability will have to be proved by tests, whereas foreigners who completed three years of technical intern training will be exempted from such tests. Also, the maximum period of stay will be five years in total, but bringing along family members will in principle not be allowed. However, if it is acknowledged that the foreigner in question has attained a higher level of expertise, such as passing certain tests while residing in Japan, consideration also will be given to a status of residence for the existing field of

expertise or technical skill.

Although the government has not announced the types of work to be targeted, it is highly likely that the main fields will be those critically short of workers, such as the construction and farming industries, caregiving, hotel business and shipbuilding.

On 24 July 2018, under close collaboration with relevant administrative agencies, the government set up a “ministerial conference on inviting foreign professionals to come and work and live in Japan” – hence, preparations with the aim of establishing a new status of residence in April 2019 are moving ahead.

#### ③ Online procedures for status of residence

It was burdensome to carry out the procedures for status of residence, including those to be carried out at the Immigration Bureau. In addition, it took time to carry them out because the Immigration Bureau was congested. Due to this, consideration of issues, including the provision of online procedures in FY2018, was undertaken to pave the way for the provision of wide-ranging smoother and faster procedures.

As a result, in the “Growth Strategy 2018,” targeting the affiliated institutions that appropriately employ foreigners and notify the employment status of foreigners, online applications covering procedures for status of residence will start from FY2018 and will allow affiliated institutions to carry out the procedures online on behalf of the foreigner in question.

#### ④ “Business Manager” status of residence acquisition for coworking space now feasible

A foreigner starting a business in Japan or employed to manage/operate a business will need a “Business Manager” status of residence. One of the prerequisites for approving such a status of residence is the criteria that “the facilities to be used as an office for the business concerned must be located in Japan” or “the office for the business concerned must exist in Japan.” Up to now, as a rule, shared offices, such as coworking spaces, have not conformed to status of residence requirements.

However, in recent years, as business models and ways of working diversify, so have office layouts – thus, coworking spaces and shared offices are becoming infrastructures for people and companies starting new businesses. Amidst this trend, JETRO received requests for coworking spaces to be approvable under the preconditions for workplaces from foreign companies wishing to startup a Japanese subsidiary and do business in Japan without incurring too many costs.

Acknowledging this, the outcome of discussions between the Ministry of Economy, Trade and Industry and the Ministry of Justice is that approval has been given for a preferential measure for issuing “Business Manager” status of residence to foreign managers of Japanese subsidiaries or branches belonging to foreign companies that have received JETRO Certification of Support. In cases where the workplace (coworking space, etc.) meets fixed conditions, the prerequisite for this preferential measure is that the application must be made within three years from the time when the business was started in Japan, for example.

In November 2018, all regional Immigration Bureau offices will be informed of this measure by the Director General of the Immigration Bureau, Ministry of Justice, and application of the measure is expected to be commenced.

## (5) Initiatives toward expanding Japan's inward FDI into regional areas

### ① Support Program for Regional Foreign Direct Investment in Japan

The government's Council for Promotion of Foreign Direct Investment in Japan (6th meeting) adopted the Support Program for Regional Foreign Direct Investment in Japan on 17 May 2018 (Chart 2-4).

In this program, all arms of the government, cored around the relevant ministries and agencies and JETRO, will work closely together to support in detail those local governments that wish to attract foreign companies to their regions by making the most of their regional strongpoints (companies with technical prowess, distinctive industrial clusters, diverse regional resources and excellent workforce). The aim is to add some power to the promotion of regional revitalization through the expansion of Japan's inward FDI (which up to now has been mainly reserved for some big cities, such as Tokyo) out into regional areas.

In specific terms, a plan to attract foreign companies will be drawn up and, for the local government to achieve regional vitalization, the following will be performed: (i) support drawing up of plans, (ii) support matching of foreign companies with relevant region's companies and local government, (iii) support the effective use of policies of relevant ministries and agencies, and (iv) advise, in a one-stop service, about regulations and administrative procedures that relate to foreign companies and local governments. In addition, the

relevant ministries and agencies will provide pertinent information about the support policies, regulations and administrative procedures under their jurisdiction to foreign companies and local governments as well as constructively respond to inquiries, consultations and requests made by foreign countries and local governments.

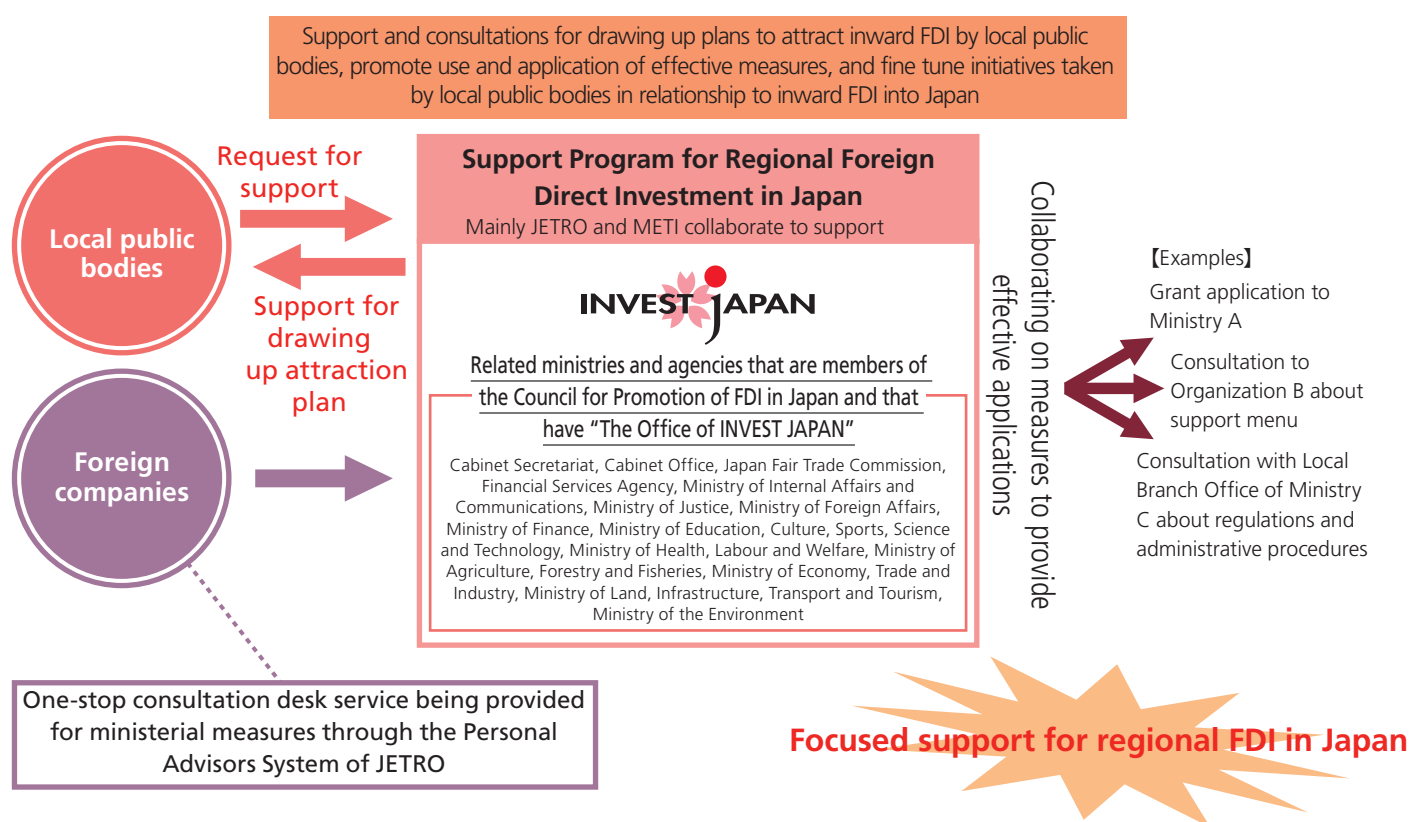
### ② Regional Business Conference (RBC)

As Japan is garnering a lot of international attention about the staging of the 2019 Rugby World Cup and 2020 Tokyo Olympics and Paralympics, it is a good time to bring Japan's inward FDI to regional areas by telling the world that Japan's regional areas have great business environments.

The government had planned to hold Regional Business Conferences (RBC) over 2019 and 2020 in collaboration with aspirational local governments wanting to attract foreign companies; however, in the "Growth Strategy 2018," this has been brought forward a year to start in 2018.

RBCs are events that foreign companies with a high level of interest in investing in a specific region are cordially invited to meet with the heads of local governments for investment promotion talks and participate in matching events with local companies, etc. As the first volley of projects, JETRO and the Ministry of Economy, Trade and Industry have selected Fukushima Prefecture (Theme: Medical and related industries), Ibaraki Prefecture (Theme: R&D center), Fukuoka Prefecture (Theme: IoT related industries) and Osaka City (Theme: Startup ecosystem) to be the four events held in succession from October 2018 onward.

**Chart 2-4 Image of Support Program for Regional Foreign Direct Investment in Japan**



[Source] Council for Promotion of Foreign Direct Investment in Japan (6th meeting)

## (6) Tax reform

### ① Establishing a tax system pertaining to the promotion of information collaboration investment (Connected Industries Tax System)

On 28 March 2018, the Partial Amendment of the Income Tax Act, etc. was concluded, and various revisions of company taxation were made.

With the tax system revisions this time round, taxation measures were established to support the introduction of systems, sensors and robots necessary for improving productivity by connecting, using and applying data that is protected by a certain degree of cyber security.

Specifically, this measure involves a special depreciation of 30% or a tax credit of 3% (5% in cases of wage increase) for capital investment based on a business plan created by the relevant enterprise and approved by the competent minister. Targeted enterprises are those that make blue-paper income tax returns, with no restrictions on them due to type of industry and size of capital base. Furthermore, their minimum total amount of investment has to be 50 million yen, and applicable equipment includes data collecting equipment (sensors, etc.), robots and machine tools automated under direction of data analysis, systems needed to link and analyze data (servers, AI, software, etc.) and cyber security products (Chart 2-5).

With this reform measure, the tax system can be used to stimulate business by encouraging technical innovation, improving company productivity and strengthening competitiveness. It is obtained for the period from 6 June 2018 (enactment date of Act on Special Measures for Productivity Improvement) to 31 March 2021 and applies to the equipment attendant to business.

**Chart 2-5 Image of tax system pertaining to the promotion of information collaboration investment (Connected Industries Tax System)**

Prerequisites for Approving Plans	Content of Special Provisions for Taxation									
<p><b>1. Content of data collaboration and application</b></p> <ul style="list-style-type: none"> <li>Link outside data and never-before-obtained data with in-house data</li> <li>Link data important to company competitiveness with group companies and between offices</li> </ul> <p><b>2. Security front</b></p> <p>Security specialists must guarantee that necessary security measures are in place</p> <p><b>3. Productivity increase front</b></p> <p>All of the following must be a likely achievement in a fixed period from FY of investment</p> <ul style="list-style-type: none"> <li>Labor productivity: Average annual increase of 2% or more</li> <li>Rate of return on investment: Annual average of 15% or more</li> </ul>	<p>Regarding capital investment based on approved business plan, the following measures will be adopted.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #e91e63; color: white;">Targeted equipment</th> <th style="background-color: #e91e63; color: white;">Special depreciation</th> <th style="background-color: #e91e63; color: white;">Tax credit</th> </tr> </thead> <tbody> <tr> <td rowspan="2" style="background-color: #f4a460; text-align: center; vertical-align: middle;">Software Furniture &amp; fixtures Machinery</td> <td rowspan="2" style="background-color: #f4a460; text-align: center; vertical-align: middle;">30%</td> <td style="background-color: #f4a460; text-align: center;">3% (Restricted to 15% of corporate tax sum)</td> </tr> <tr> <td style="background-color: #f4a460; text-align: center;">5% * (Restricted to 20% of corporate tax sum)</td> </tr> </tbody> </table> <p><b>【Examples of targeted equipment】</b> Data collecting equipment (sensors, etc.), robots and machine tools automated under direction of data analysis, systems needed to link and analyze data (servers, AI, software, etc.) and cyber security products, etc.</p> <p><b>Minimum total amount of investment: 50 million yen</b></p> <p>* In addition to approval of plan, when year-on-year rate of increase of average salary payments is greater than or equal to 3%</p>			Targeted equipment	Special depreciation	Tax credit	Software Furniture & fixtures Machinery	30%	3% (Restricted to 15% of corporate tax sum)	5% * (Restricted to 20% of corporate tax sum)
Targeted equipment	Special depreciation	Tax credit								
Software Furniture & fixtures Machinery	30%	3% (Restricted to 15% of corporate tax sum)								
		5% * (Restricted to 20% of corporate tax sum)								

[Source] FY2018 Tax Reform pertaining to Economy, Trade and Industry (Ministry of Economy, Trade and Industry)

## ② Establishing a measure for smooth business restructuring via stock acquisition by way of compensation through ownership of company stock

In the tax reform this time round, a measure has been included to defer taxation on capital gains pertaining to stocks as consideration in mergers and acquisitions, in order to support companies in efforts to swiftly and boldly change their business portfolios (Chart 2-6).

Using stocks as consideration in mergers and acquisitions is common practice in Europe and America, but in Japan it has not been popular because of the tax burden that occurs for the stockholders of the company targeted for acquisition (selling side) where stocks are issued as consideration in the acquisition – therefore, it has been difficult to flexibly and smoothly conduct large-scale acquisitions up to now.

Thanks to this reform, an acquiring company with a plan to restructure business just needs to get the competent minister's approval to enable a tax deferral for the stockholders (sellers) in the acquisition, so there is no need to secure funds to pay tax obligations. Likewise, as acquiring companies can make acquisitions without using cash, the reform will make acquisitions easier for startup companies that are short on capital, which should contribute to the expansion of mergers and acquisitions. Moreover, as another efficacy, sellers will hold stocks of the acquisition company, which will give them an incentive to help increase the worth of the acquiring company after the merger or acquisition has taken place, suggesting that company value will increase due to cooperation between sellers and acquiring companies.

Thus, this system will encourage entities such as venture companies to enthusiastically adopt outside management resources and technologies. The system also works from the perspective of raising company productivity and is applicable from 9 July 2018 (the date for enacting the law that partially revises the Act on Strengthening Industrial Competitiveness) to the end of FY2020.

## ③ Revision of tax obligations – such as inheritance tax on foreigners after they leave Japan

Regarding inheritance and gift taxes on inheritances and gifts made after leaving Japan by people without Japanese citizenship who have resided in Japan for a long time, following on from FY2017, further revisions to the tax system have been made in FY2018.

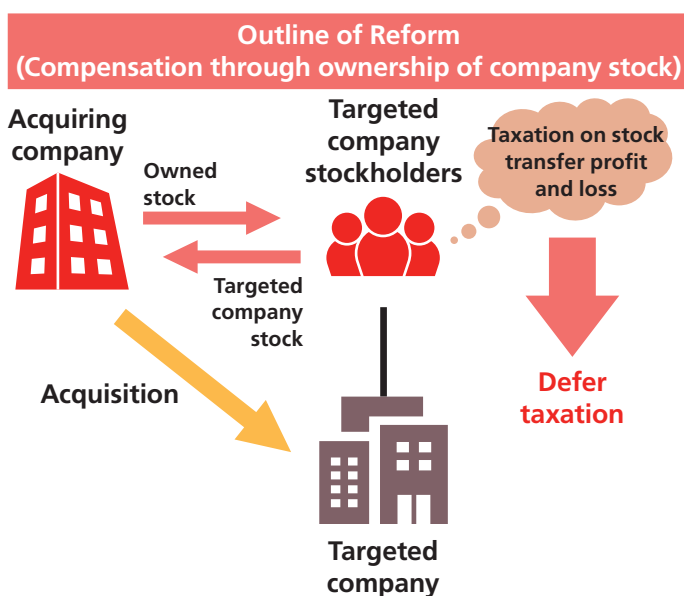
With the FY2017 revision, in cases of inheritance where the deceased heir or his/her heir (inheritor) is a foreigner who had been temporarily residing in Japan on a status of residence [Note 1], a revision was made to decrease taxable items; whereas, in cases where the deceased heir had resided in Japan for a long time [Note 2], both domestic and overseas assets of the deceased heir were deemed taxable items, even if the inheritor in question did not have an address in Japan at the time of inheritance.

With the FY2018 revision, from the perspective of further promoting the acceptance of and long stay of highly skilled foreign professionals, the above point was revised to in principle stop taxation (inheritance taxation) of overseas assets in cases of inheritance and gifting after the foreigner in question had left Japan (note however that in cases where the foreigner in question takes an address in Japan within two years of leaving Japan, any gift of overseas assets is deemed to be taxable). This revision became applicable to inheritances and gifts from 1 April 2018.

[Note 1] Those who have status of residence as defined by Appended Table I of the Immigration Control and Refugee Recognition Act and have registered addresses in Japan for a total of 10 years or less during the past 15 years.

[Note 2] Those who have resided in Japan for more than ten years during the past 15 years.

**Chart 2-6 Image of a measure for smooth business restructuring via stock acquisition by way of compensation through ownership of company stock**



### Before Tax Reform

- Tax burden on stockholders of company targeted for acquisition when targeted company stocks are transferred
- Must sell off some of acquiring company's stocks as compensation to pay tax obligation
- Fear of stock price dropping if stockholders of company targeted sells off acquiring company's stocks

▶ **In practice, acquisition of company-owned stocks as compensation is difficult**

### After Tax Reform

- Acquiring company with a plan to restructure business just needs to get the competent minister's approval to enable a tax deferral for the stockholders (sellers) in the acquisition, so there is no need to secure funds to pay tax
- This removes the fear of acquiring company's stock price dropping

▶ **Smoothing company restructuring with company-owned stocks as compensation**

[Source] FY2018 Tax Reform pertaining to Economy, Trade and Industry (Ministry of Economy, Trade and Industry)

## (7) Enhancement of corporate governance

Enhancement of corporate governance will lend itself to improvements in profitability for Japanese companies, which will result in making Japanese companies more attractive as investment targets, feasibly contributing to the increase in inward FDI into Japan.

On 1 June 2018, the Tokyo Stock Exchange publicly announced a revised edition of its corporate governance code. The code was put into practice in June 2015 as a guide to show how proper corporate governance should take place, and this was its first revision.

The revision is consistent with the government's growth strategy that aims to further substantiate the ongoing corporate governance reforms. It came about from a proposal in a follow-up meeting on the Stewardship Code and Corporate Governance Code that the Financial Services Agency and the Tokyo Stock Exchange are running as the secretariat.

The specific points of the revision require the following from listed

companies: (1) release of policy or ideas on reducing cross-shareholdings, (2) establishment of procedures with objectivity, timeliness and transparency in connection to appointment and dismissal of CEO, (3) Constructive use of independent outside directors (4) composing of board of directors that brings about compatibility in diversity and optimal capacity that includes gender and international mindedness, and (5) management that is able to accurately grasp the company's capital cost. It is safe to say that these steps are coming to grips with issues more than has happened conventionally.

In addition, the government has drawn up the "Guidelines for Investor and Company Engagement" as an annex for both the Stewardship Code (revised in May 2017) and Corporate Governance Code. The annex is compiled of items that can be expected to generate selective dialogue between institutional investors and companies, so that through mutually constructive dialogue, the company concerned can be expected to achieve sustained growth and increase the medium-to-long-term value of the company.

## 2. Business environmental improvement efforts till now

