

JETRO Invest Japan Report

2022



Chapter 3 overviews the government policy announced in June 2022, “The Basic Policy on Economic and Fiscal Management and Reform 2022,” which aims to activate the “New Form of Capitalism” for achieving a sustainable economy by harnessing processes to overcome challenges to drive growth. It also introduces the “Vision for a Digital Garden City Nation” and the Japanese government’s support measures to promote the implementation and investment in semiconductors, 5G, and other sectors. It also covers works in recent years to improve the living environment with foreign investors and businesspeople.

Section 1. Basic Policy on Economic and Fiscal Management and Reform 2022



There are structural changes in the environment surrounding Japan, such as COVID-19, Russia’s aggression against Ukraine, and climate change. Domestically, Japan faces difficulties, including soaring prices for imported resources, a declining population, a low birthrate, an aging population, stagnant potential growth rates, and frequent and intensified disasters. Thus, multiple and compounded challenges, both domestic and international, are piling into Japan simultaneously.

Under these circumstances, it is necessary not merely to get through challenges but also to take advantage of efforts to solve social issues as an engine for value creation. The public and private sectors need to work together and implement prioritized investment and regulatory and institutional reforms in a systematic manner over medium- to long-term, all the while activating the “New Form of Capitalism” to transform the economic and social structure into a more resilient and sustainable one, simultaneously resolving social issues and achieving economic growth. Based on this background, the cabinet decision was made on the Basic Policy on Economic and Fiscal Management and Reform 2022 on June 7, 2022

It sets out the basic guideline for public-private partnership investment in priority investment sectors for realizing a “New Form of Capitalism,” including “investment in people,” investment in science, technology and innovation, investment in startups, investment in green transformation (GX), and investment in digital transformation (DX).

In particular, “investment in people” will also be a core investment in the foundations common to science, technology and innovation, startups, GX, and DX, which are the systematic and prioritized investment areas toward a “New Form of Capitalism.” Combined with increased profits and income through productivity improvement by stimulating private sector investments, autonomous economic growth will be realized.

Chapter 3-1 shows priority investment areas to realize “New Form of Capitalism” set forth the Basic Policy on Economic and Fiscal Management and Reform 2022. The policy aims to execute systematic investments in these priority areas in the medium- to long-run by implementing necessary institutional reforms through plans such as public-private collaboration under the 400 billion yen 3-year package to enhance “investment in people,” “6th Science, Technology and Innovation Basic Plan,” “Five-year startup development plan,” “Clean Energy Strategy,” “Digital Garden City Nation Infrastructure Development Plan,” and “Priority Policy Program for Realizing Digital Society.”

Chart 3-1: Priority investment areas towards a new form of capitalism

No.	Priority investment areas	Outline	Plans
1	Investment in and distribution to people	<ul style="list-style-type: none"> Investment in human capital Promote diverse workstyles Realization of high-quality education Promote increase in wages and raise minimum wages Doubling Asset-Based Incomes Plan 	400-billion-yen package of measures to strengthen investment in people over 3 years
2	Investment in science, technology and innovation	<ul style="list-style-type: none"> Provide incentives for companies that increase R&D investment Drive drastic expansion of investment in quantum technologies/AI/ biotechnology and medical care through public-private collaboration and an increased focus on the space and marine fields Substantial reinforcement of strategic management of universities, which are at the core of creating innovation, including industry-academia-government collaboration Strengthen support for young human resources 	6th Science, Technology and Innovation Basic Plan
3	Investment in startups	<ul style="list-style-type: none"> Formulate a five-year startup development plan eyeing a 10-fold growth of startups in 5 years Revise IPO process, improve environment for stock options, etc. Support the development and acquisition of human resources to back entrepreneurship and the matching of researchers with management personnel, etc. Spur open innovation and promote the use of public procurement 	Five-year startup development plan
4	Investment in green transformation (GX)	<ul style="list-style-type: none"> Crystalize the “Pro-Growth Carbon Pricing” vision to achieve more than 150 trillion-yen investment in the next 10 years Use of new financial instruments such as transition finance Establishment of the GX Executive Council Targeted improvement of environment to boost decarbonization investments (batteries, support for vehicle purchase and infrastructure development, hydrogen and ammonia, CCUS/ carbon recycling, advanced nuclear power, and nuclear fusion, etc.) Develop a green international financial center that trades green bonds and other environment-related products 	Clean Energy Strategy
5	Investment in digital transformation (DX)	<ul style="list-style-type: none"> Integrated promotion of digital reform, regulatory reform, and administrative reform Promote regulatory reform, including speeding up procedures and reducing costs for incorporation Standardization for DX in transport and logistics such as Self-driving cars, flying cars, and promotion of MaaS, and development of a technology map Prompt development of data platforms for medical and nursing care, education, infrastructure, and disaster prevention 	<ul style="list-style-type: none"> Digital Garden City Nation Infrastructure Development Plan Priority Policy Program for Realizing Digital Society

Source: The Basic Policy on Economic and Fiscal Management and Reform 2022

Section2. Amended 5G Promotion Act



The global progress of digitalization has reaffirmed the significance of semiconductors as vital products. The usage of semiconductors is expanding into all industries, including automobiles and medical equipment. Securing semiconductors is essential from an economic security perspective, as the global supply-demand situation is tightening. In order to establish a stable production system for semiconductors in Japan, revisions of the laws concerning supporting semiconductor-related capital investment were enacted in December 2021 and went into effect in March 2022.

Specifically, the Act on Promotion of Developing/Supplying and Introducing Systems Making Use of Specified Advanced Information Communication Technologies (5G Promotion Act) and Act on the New Energy and Industrial Technology Development Organization (NEDO Act) were partially revised. The revised 5G Promotion Act establishes a certification program concerning plans to develop production facilities for high-performance semiconductors in Japan (Chart 3-2). Plans certified by the revised NEDO Act will be eligible for receiving grants.

Chart 3-2: Certification program and support for high-performance semiconductor production facilities, etc.

Support target	The program certifies plans to develop and produce production facilities for specified semiconductors*1, etc. *1 Semiconductors that enable high-speed processing of large amounts of information essential for 5G information and communication systems and that are specified that stable production in Japan are especially necessary due to limited international production capacity.
Certification criteria	(a) Conformity to guidelines, the certainty of project implementation (b) Continuous production over a specific period (c) Contribution to stable domestic production (Investment to increase production, expand production capacity under tight supply, and for R&D, etc.) (d) Establishment of a system to manage technological information
Support measures	The following support measures for projects associated with the certified plan are available under specific conditions: 1. Loans by Japan Finance Corporation to financial institutions that provide loans for businesses (support for supporting financial institutions) 2. Subscription of shares issued by a joint stock company established to implement the project by Small and Medium Business Investment & Consultant Co., Ltd.(support and fundraising)*2 *2 A government agency that provides long-term stable funds to growth-oriented venture companies, SMEs/medium-sized enterprises to support business stabilization and corporate growth while enhancing capital adequacy 3. Application of Special Provisions of the Small and Medium-sized Enterprise Credit Insurance Act, which provides certain guarantees for loans to SMEs for business innovation (support in terms of guarantees for loans) 4. Subsidies*3 for certified businesses by the New Energy and Industrial Technology Development Organization (NEDO) and interest subsidies to financial institutions that provide loans to certified businesses *3 See Chapter 3 (3)

Source: Ministry of Economy, Trade and Industry(METI) website

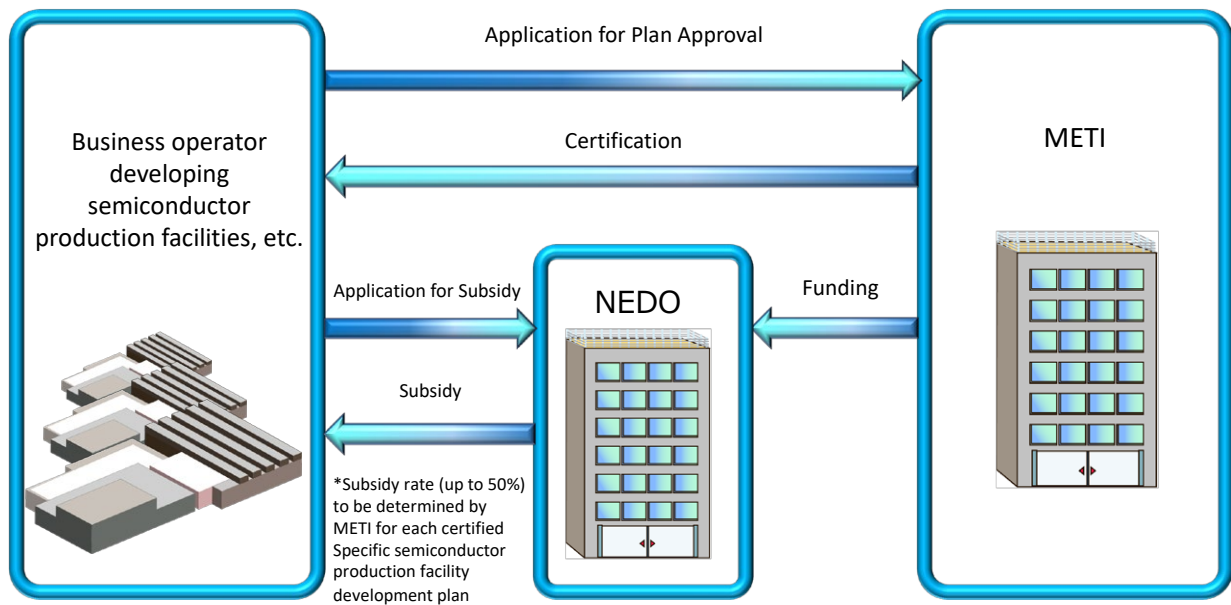
Section3. Amended NEDO Act



As mentioned earlier, the government revised the Act on the New Energy and Industrial Technology Development Organization (NEDO Act) and established a fund for NEDO to provide grants for developing production facilities of high-performance semiconductors, etc. under the certified plans (Chart 3-3).

NEDO will provide subsidies for the development of production facilities for specified types of semiconductors approved by the Minister of Economy, Trade and Industry, utilizing a fund of 617 billion yen set aside at NEDO. The subsidy will be provided at a rate of up to 50% (The subsidy rate to be determined by METI for each certified specific semiconductor production facility development plan) for the cost of civil engineering and construction work and the production and purchase of machinery and equipment, etc., that are deemed to be part of the development of production facilities. Applications have been accepted since May 2022.

Chart 3-3: Specified Semiconductor Funding Program Scheme



Source: NEDO website

Section4. Review/Extension of 5G Introduction Promotion Tax



5G, the next-generation network standard of which service is now available in Japan, is attracting attention as an ICT infrastructure to contribute to solving local social issues in regions, such as automated delivery and smarter factories. The 5G Introduction Promotion Tax was introduced with the passage of a bill to partially revise the Income Tax Law and other laws in the Ordinary Diet Session in 2020. The 5G Introduction Promotion Tax aims to propel the expansion of 5G networks by providing tax incentives, such as tax credits or special depreciation on the amount of the investment, for specific national and local 5G capital investments made per approved deployment plans.

In the tax reform for FY2022, the system was revised to accelerate the development of base stations, especially in rural areas, toward the realization of the "Vision for a Digital Garden City Nation." Its application period has been extended by three years with the introduction of descending tax credit rates to promote intensive development over the next three years. Chart 3-4 shows eligible businesses, tax credit rates, etc.

Applicable until March 31, 2025

Chart 3-4: Outline of 5G Introduction Promotion Tax

Eligible Businesses	Tax Credit			Special Depreciation
	Area	Fiscal Year	Rate	
Deployers of nationwide 5G networks	Less-favored areas (depopulated areas, etc.)	FY2022	15%	30%
		FY2023	9%	
		FY2024	3%	
	Other areas	FY2022	9%	
		FY2023	5%	
		FY2024	3%	
Deployers of local 5G networks	All areas	FY2022	15%	30%
		FY2023	9%	
		FY2024	3%	

* The maximum deduction amount is 20% of corporate income tax amount.

Applicable Facilities



1. Nationwide 5G System

- Base station radio equipment (master and slave stations installed outdoors)

*Only multi-vendor and SA (stand-alone) type antennas are applicable.

For "Other areas," only multi-element antennas or millimeter wave-compatible antennas are applicable (until the end of FY2023).

2. Local 5G System

- Base station radio equipment
- Switching equipment
- Transmission line facilities (using optical fiber)
- Communication Modules

*Applicable for only those used for advanced digitalization initiatives.

Source: METI, Ministry of Internal Affairs and Communications news release

Section5. Vision for a Digital Garden City Nation



"Vision for a Digital Garden City Nation"(URL:https://www.japan.go.jp/kizuna/2022/01/vision_for_a_digital_garden_city_nation.html) is an initiative to shift from concentration in large cities to multi-polar concentration in rural and regional areas through digitalization, towards a "society in which everyone can live conveniently and comfortably anywhere in Japan." The initiative aims to solve social issues such as the hollowing out of industries, the aging population, and the depopulation in rural and regional areas. In November 2021, a "Council for a Vision for a Digital Garden City Nation Realization" was established to materialize this initiative. The Council discussed the "Basic Policy for the Vision for a Digital Garden City Nation" at the 8th meeting in June 2022, which reached the Cabinet decision in the same month.

"Basic Policy for the Vision for a Digital Garden City Nation" aims to realize the vision with four pillars: (1) solving social issues using digital technology, (2) building hardware and software digital infrastructure, (3) training and securing digital talents, and (4) ensuring that no one is left behind. The Council has set key performance indicators (KPIs) to promote these efforts. (Chart 3-5)

Specifically, to enable "migration without job change," the government will support the development of facilities for satellite offices, etc., to further teleworking in regions and promote the development of communications infrastructures such as optical fiber networks, 5G, data centers, and submarine cables. In addition, to develop and secure human resources with digital skills necessary for solving social issues in rural and regional areas, the government will support their settling down in each area, including highly skilled foreign talents in the digital field.

Chart 3-5: Outline of KPI in "Vision for a Digital Garden City Nation"

Policies for realizing the vision	KPI (Key Performance Indicator)
Using digital technologies to solve social issues in rural areas	1,000 local governments to implement digitalization by the end of FY2024. Establish satellite offices, etc., in 1,000 local governments by the end of FY2024. Deploy management persons to 100 areas throughout the nation who will play a central role in driving regional and community development.
Developing hardware and software digital infrastructure to support the Vision for a Digital Garden City Nation	Achieve 99.9% household optical fiber coverage by the end of FY2027. Achieve 5G population coverage of 95% nationwide by the end of FY2023, 97% nationwide by the end of FY2025, and 99% nationwide by the end of FY2030. Build a dozen or more regional data centers around the country in about five years. Complete the "Digital Garden City Superhighway" using submarine cables surrounding the islands of Japan by the end of FY2025.
Developing and securing human resources with digital skills	Train 2.3 million personnel to promote digitalization by the end of FY2026.
Ensuring that no one is left behind	Start the Digital Promotion Committee with more than 20,000 members nationwide in FY2022.

Source: Cabinet Secretariat and Cabinet Office

[Column] Improving Foreign Investors- and Businesses-friendly Living Environment



Government's Initiatives

April 2014	The government established the Council for Promotion of FDI in Japan to promote FDI in Japan. It assumed a role of a command post in identifying and attracting investment projects, collecting opinions directly from foreign company executives, etc., and contributing to the efforts of relevant ministers and related councils to achieve necessary institutional reforms, etc.
May 2016	The Council compiled the "Policy Package for Promoting Foreign Direct Investment into Japan to Make Japan a Global Hub." It established the "Working Group for Revising Regulations and Administrative Procedures" to examine the simplification of regulations and administrative procedures that may hinder foreign companies from investing in Japan and coordinating with relevant government ministries and agencies (final report released in April 2017).

Medical System



May. 2016 The policy package sets a goal that the number of medical institutions with capabilities to accept foreign patients is to expand to around 40 locations nationwide by March 2017.



Promoting the capacity development for accepting foreign patients by supporting the placement of medical interpreters and furthering the use of telephone medical interpreters, etc., mainly at core medical institutions selected by prefectures. (As of September 2021, multilingual medical care covers 95.8% of the medical areas in Japan) (Note)



June 2021 Under the Strategy for Promoting FDI in Japan, the government will work to develop a foreigner-friendly healthcare system, specifying the target of having at least 1,000 hospitals providing care in multiple languages by March 2026.

(Note) Based on secondary medical areas. Of the 335 medical areas, 321 medical areas are covered. Source: Ministry of Health, Labour and Welfare's "Fiscal 2021 Survey on the Acceptance of Foreign Patients at Medical Institutions".

Children's Education



May 2016 The policy package specifies the promotion of educational support for foreign schoolchildren.



Supporting local governments working to develop systems to promote the acceptance of returning and foreign children at schools and enhance Japanese language support. Promoting initiatives by setting organizing and implementing "special curricula" for schoolchildren who need Japanese language support as a mandatory requirement.

(Of the total foreign schoolchildren requiring Japanese language support, the percentage of those receiving it based on special arrangements at school increased from 76.9% (2016) to 90.9% (2021)) (Note)



June 2021 The Strategy for Promoting FDI in Japan has established a goal for improving the educational environment for foreign school children, ensuring that all those who students who need it can receive Japanese language instruction by March 2023.

Source: Ministry of Education, Culture, Sports, Science and Technology, "Survey on Acceptance of Children in Need of Japanese Language Instruction (FY2021)."

Status of residence



April 2017 Based on the discussions of the Working Group, "Japanese Green Card for Highly-Skilled Foreign Professionals" system was established to significantly shorten the period of stay required to apply permanent residency for highly-skilled foreign professionals. In addition, requirements for the highly skilled professionals' point-based system were reviewed (the addition of evaluation items, etc.).



December 2018 Foreign entrepreneurs who receive approval from a local government whose "Management Support Plan for Foreign Entrepreneurial Activities" was accredited by the government can stay to prepare for starting a business for up to one year. 14 local governments have been accredited (Note).



July 2021 As part of the initiatives to achieve "Japan as a Global Financial Center (Finance Place Japan)" described below, a person completing registration as an investment management business while staying in Japan as a "temporary visitor" can change the status of residence straight to "highly skilled professional" or "business manager," etc. Expansion of preferential treatment in the highly skilled professionals' point-based system for financial professionals and relaxation of requirements for employing domestic workers, etc. were introduced.

(Note) As of July 2022. Also, "Programs to Promote the Acceptance of Foreign Entrepreneurs" for National Strategic Special Zones has been in place since July 2015, allowing foreign entrepreneurs six months of residence for startup activity. 10 local governments have adopted it.

Multilingualization



- March 2015 Promote multilingualization of retail stores, food service, roads, and public transportation based on the "Five Commitments to Attracting Foreign Companies to Japan" in March 2015 .
- ▼
- May 2016 The Policy Package set a target of publishing translations of more than 500 laws and regulations in foreign languages by March 2021.
- ▼
- ~March 2021 Foreign-language translations of 503 laws and regulations (Note) (including revisions) were published. The cumulative number of translated laws and regulations approaches 800.
- ▼
- June 2021 The Strategy for Promoting FDI in Japan set a target of publishing at least 600 new English translations of laws and regulations by March 2026. Effort will be made for another 400 translations (making a total of 1,000 pieces), depending on the advancement in translation technology, etc.
 (*) The "Public-Private Strategy Council for Promoting the International Dissemination of Japanese Laws and Regulations" held in January 2021 has set the field related to foreigners living in Japan as one of the priority areas.

(Note) As of March 5, 2021

Tax System



"Comprehensive Economic Measures to Secure People's Lives and Livelihoods towards Relief and Hope" was decided by the Cabinet in December 2020, incorporated "the International Financial Center Initiatives (Finance Place Japan)".

International Financial Center Initiatives

April 2021	Regarding inheritance tax, if the foreign national had lived in Japan for more than 10 years, the worldwide assets were subject to taxation. After the reform, for foreign nationals residing in Japan with a valid working visa, the foreign assets were no longer subject to inheritance tax regardless of the period of residence.
April 2021	Taxation of carried interest, the distribution allocated return in excess of the capital contribution ratio, is clarified. It is not subject to comprehensive taxation (progressive tax rate, up to 55%) but is taxed as "capital gain of the shares"(uniformly 20%) in cases where there is economic rationality in the distribution of profits.
November 2021	Unlisted companies were not allowed to treat performance-based compensation for directors as tax-deductible expenses. After the reform, unlisted non-family companies and alike, whose primary business is investment management, can now include it in tax-deductible expenses with a number of conditions, including where the calculation methods are described in its business reports filed under the Financial Instruments and Exchange Act and disclosed publicly through the JFSA website.

