# Reduction of the "Effective Corporate Tax Rate"

Effective corporate tax rate implies the actual tax burden on corporate profits including national and local government taxes. As a location for corporations, Japan is not competitive enough as its effective corporate tax rate is higher than in other nations. Therefore, it was pointed out that the effective corporate tax rate (including both national and local taxes) should be lowered to the twenties.

## Point 1

### To be reduced to 31.33% in FY2016

**FY2015 is the first year of corporate tax reform**

- Effective corporate tax rate was reduced by 2.51% to 32.11% from the previous fiscal year's tax rate of 34.62% (standard tax rate). It is scheduled to be reduced by 0.78% to 31.33% in FY2016. Reduction of the effective corporate tax rate in FY2015 and 2016 is deemed as the start of corporate tax reform as "front loaded tax reduction", reduction of tax without full finance, was decided by the Cabinet.

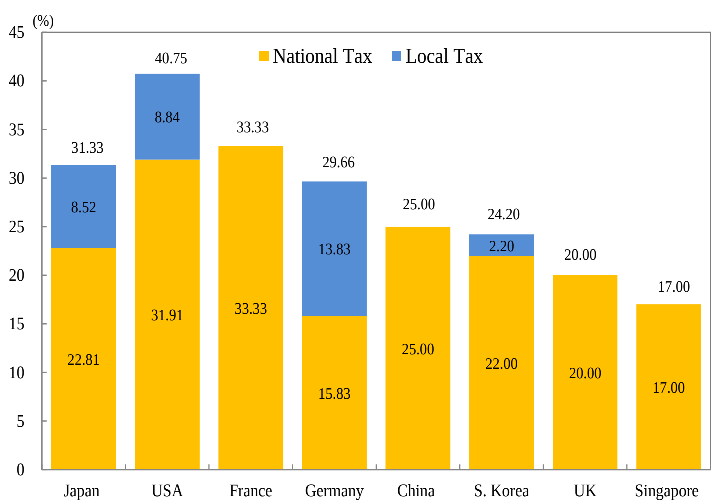
## Point 2

### Pro-growth corporate tax reform

**Speedy improvement of locational competitiveness is required**

- Speed in corporate tax reform is required for pro-growth structural reform aiming to boost the competitiveness of Japan. It was clearly indicated in the "Basic Policies for the Economic and Fiscal Management and Reform 2014" as "we aim to reduce the percentage level of the effective corporate tax rate down to the twenties in several years".
- In the following 2015 version of the Basic Policies, it was mentioned that pro-growth corporate tax reform in progress must be accomplished as soon as possible. An effective corporate tax rate of 31.33% in FY2016 is not good enough to be locationally competitive compared to other Asian nations. A steady cut in tax rates seems to be required.

**"International Comparison of Corporate Tax Rate (National and Local Taxes) "**




(Note) The tax rate of Japan is of FY2016. Other countries are as of April 2015.
For Japan, standard tax rate is used. For US that of Calfornia State, for Germany average tax rate for whole Germany and for S. Korea that of Seoul.
(Source) SMAM, based on the Ministry of Finance data.

**Future Outlook** **Steady cut of effective corporate tax rate is expected**

## ■ Aiming to reduce effective corporate tax rate to the twenties

According to the media, the government may possibly reduce the effective corporate tax rate to the twenties in FY2017. Assuming Japan will join the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP, which includes China and East Asian nations) in the future, an early catch-up with other Asian nations in terms of locational competitiveness is needed.

## ■ Financing the tax reduction will be a challenge

The Government urges Japanese corporations to actively invest under the slogan of achieving nominal GDP of JPY 600 trillion mentioned in "Abenomics 2.0". To achieve the government target, the business community is requesting a cut in the effective corporate tax rate to be realized first. Financing the tax reduction will be a challenge as the cut of the effective corporate tax rate will significantly reduce tax revenue.




Registered Number: Kanto Local Finance Bureau (KINSHO) No.399
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