Taxation of Micro and Small Businesses in Japan: Recent Developments

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Overview (Statistic)

- Percentages of Small- & Medium-sized Companies in Japan (ca. 98%)

Diagram: Pie chart showing percentages of capitalized companies with less than 100 million and over 100 million Yen.
Traditional View of SME

- Family Corporation: Corporate governance?

- The risk for tax fraud (ex. an attempt to levy the accumulated earning tax for the aforesaid family corporations)
Current Problems

- Need for innovation ☞ establishing tax incentives (STMA 46-6: came into force in 2008)
- Shortage of successors ☞ “Act on Facilitation of Succession of Management of SMEs” (Law No. 33 in 2008: came into force in October 1, 2008) see slide 7
- Lack of finance ☞ “SME Finance Facilitation Act (came into force from December 4, 2009 until March 31, 2013)
SMEs Taxation: in General

- Since 2008: A reduced corporate tax rate (18%) for SMEs has been introduced (its annual turnover is less than 8 million Yen).

- Other remarks: The accelerated depreciation of R&D costs (200%); special tax incentives for the promotion of investment in venture businesses; “the angel tax system”
SMEs Taxation: Succession of a Business

- Barriers: The (relatively) high Japanese inheritance tax rate and the change in business styles (including industrial structures)
- Trends in a non-family succession of a business (including M&A)
- Since 2008, the special rule has been introduced. The scope of this rule: companies prescribed in the “Small and Medium-sized Enterprise Basic Act” and unlisted companies
SMEs GAAP: Localization?

- In 2006, the first SMEs GAAP in Japan was announced ("Guidelines on Accounting of Small and Medium-sized Enterprises"). Four private organizations (i.e. ASBJ, JICPA, JFCPTAA, and JCCI) participated.
- After several amendments, the new SMEs GAAP have been enforced since 2012. METI, especially SMA, had initiatives in that project.

☞ Subdivision and localization?
SMEs in Japan: Future?

- Special Treatment for SMEs: Is it useful?
- Differences between domestic SMEs vs. international SMEs
- Tax incentives vs. tax neutrality/fairness
Thank You for Your Attention!