September 30, 2011   No. 020

OKAMOTO & COMPANY

Okamoto & Company International Accounting Office / Hanato Tax Accountant Office

2011 Tax Reform Update

Corporate Income Taxes

1. Tax rate

The tax rate applied to income of 8 million or less for small and medium enterprise was temporarily lowered to 18% from April 1, 2009 until March 31, 2011. This measure has been extended to March 31, 2012.

2. Tax credits for increased hiring

A qualified employer can claim tax credits for an increase in employees. See Payroll section for details.

Consumption Taxes

1. Conditions to be exempt enterprises

Under the current rules, if taxable sales did not exceed 10 million yen two years prior (i.e. base period) to the current period, enterprises were exempt from filing consumption tax returns. However, under the new rules, an entity must also look at the first six months of the prior year. If sales for the first six months of the prior fiscal year exceeds 10 million yen, the enterprise must file a consumption tax return for the current period starting from fiscal years beginning on or after January 1 2013.

2. Credit for taxable purchases

For companies with annual taxable sales of 500 million yen or more, enterprises may no longer be able to claim back 100% of the prepaid consumption taxes. Under the current rules, if taxable sales comprised 95% or more of the total sales, the enterprise was able to claim all of the prepaid consumption taxes. However, for fiscal years beginning on or after April 1, 2012, such enterprises will only be able to receive a refund for the same percentage of taxable sales against prepaid consumption taxes.

3. Schedule of credit for taxable purchases

Under the current rules, there is no requirement to attach a "Schedule of taxable purchases" to a tax refund return. With the amendment, it will become mandatory, and the items to be included in the schedule will also be modified.

Payroll

Change in the Welfare Pension Insurance Premium Ratio

The new Welfare Pension Insurance Premium Ratios which are effective on and after September 1, 2011 are as follows:

Employer contribution – from 8.029% to 8.206%
Employee contribution – from 8.029% to 8.206%

Tax Credits for Increased Hiring

Corporations with increase in employees of five (two in the case of Small and Medium Enterprises) or more and the percentage increase is 10% or more for any of the fiscal years beginning on or after April 1, 2011 and ending March 31, 2014 will be eligible for tax credits of JPY200,000 for each new employee. In order to obtain these credits, the corporations need to submit additional employment plans to Hellowork (the public employment insurance office).

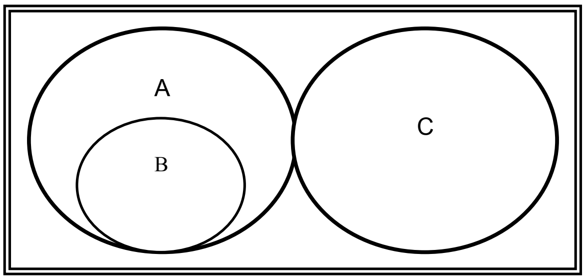
<Requirements to claim these tax credits>

- The corporation is a blue return filing taxpayer.
- There are no employees who were terminated by the employer during the past two fiscal years.
- The increase in employees who are insured by employment insurance is five (two in the case of Small and Medium Enterprises) or more and the employee increase percentage is 10% or more for the year of claims.
- Salaries paid during the year increase by more than 30% multiplied by the percentage increase in the number of employees.

Tax Caution Areas

Corporations in Japan

Classification by Ownership

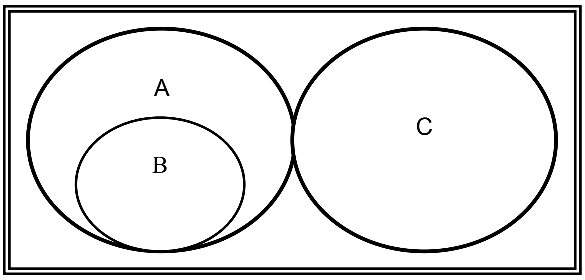


A. Family corporations ("Dozoku Gaisha")
Corporations in which more than 50% of the shares outstanding are owned by three or less groups. A shareholder and his family are considered as one "group."

B. Specified family corporations ("Tokutei Dozoku Gaisha")
Family corporations are subject to the additional tax on their retained earnings if more than 50% of their shares or contributed capital are owned by a single shareholder group of related persons or affiliated corporations.

C. Non-family corporations ("Hi-Dozoku Gaisha")
Entities which are not categorized as family corporations.

Classification by Size



A. Small and medium enterprises ("SMEs")
Corporations with paid-in capital of JPY 100 million or less at the end of each fiscal year

B. Specified small and medium enterprises
Those SMEs which also satisfy one of the following:

1) entities in which 50% or more of the shares outstanding are not held by a single large enterprise

2) entities in which two-thirds or more of the shares outstanding are not held by two or more large enterprises

C. Large enterprises
Corporations that are not considered SMEs

SMEs are able to obtain certain tax benefits such as lower tax rates and allowance for entertainment expenses.

Specified small and medium enterprises are able to claim tax credits for an increase in employees.

Entertainment, Meeting and Welfare Expenses

1. 5,000 yen Entertainment Expense Rule
Since the 2006 Tax Reform, meal expenditures of 5,000 yen or less per person has in general, been excluded from entertainment expenses and was deductible for corporate income tax purposes. There are now some new conditions to satisfy in order to use this 5,000 yen rule - described as follows:

A. The rule is not applicable to expenditures for directors, employees and their relatives. Such payments are generally considered salaries, welfare expenses or other similar accounts. See B. below.

B. Meal expenses do not include golf fees, gifts, condolence money and similar payments.

C. Documents describing particulars of the meals should be saved.

2. Classifications between Meeting, Welfare and Salary Expenses
"The Expenditures for the directors, employees and their relatives" stated in 1.A. above should be treated as follows:

A. As meeting expenses
When the primary purpose of the meeting is not to serve meals this classification will likely apply. For example, the only time all of the participants are able to gather is during the lunch break. Also, the cost of meals should be reasonable.

B. As welfare expenses
The expenditures could be considered welfare expenses if the meals are served to all employees across the board on occasions such as anniversaries on incorporation. On the other hand, expenditures could be considered entertainment expenses or salaries under the following situations:

1) The expenditures are unrelated to anniversaries or events at the corporation.

2) Only certain departments or divisions are included.

C. Others
Other expenditures which cannot satisfy A and B should be treated as (internal) entertainment expenses. Moreover, meals paid for employees could be considered a part of salary if there is no supporting documentation.

Office Manager Seminar

We will be holding a seminar to highlight the topics of the 2011 tax reform and change in the welfare pension insurance premium ratios. If you are interested in participating, please send an e-mail to the following e-mail address by Thursday, October 6, 2011.

distribution@okamoto-co.co.jp

Date: Monday, October 17, 2011, 1:30 pm - 3:30 pm
Place: Training room at Okamoto & Company

http://www.okamoto-co.co.jp/map.html

Okamoto & Company International Accounting Office / Hanato Tax Accountant Office

Hirakawacho Daiichi Seimei Building, 1-2-10 Hirakawacho
Chiyoda-ku, Tokyo 102-0093
TEL +81-3 (5276) 0900 FAX +81-3 (5276) 0950

http://www.okamoto-co.co.jp