The Working Party agreed at its fifth meeting from 11 to 14 November 1968 that there was a need to dispose, as quickly as possible, of those questions not already discussed at previous meetings; short answers should therefore be prepared and, if delegations so wished, these could be submitted in writing in advance of its next meeting.

A further reply which is attached hereto has been received from the delegation of Japan. ¹

Further replies will be circulated in addenda to this document.

¹ Replies by the delegation of Japan to the questions relating to selective excise taxes (I.B) are contained in the report of the fifth meeting (Spec(69)5, pages 27 and 28).
JAPAN

I.C. Overlapping indirect tax systems

1. No. There are no overlapping indirect taxes.
2. Not applicable.

II. CHANGES IN BORDER TAX ADJUSTMENTS

1-4. Not applicable. There have been no changes from one system to another, nor are there broad-based taxes in Japan.

III. MISCELLANEOUS

General

1. No.

2. As shown in page 76 of Spec(68)88 the relative importance of property taxes, licence fees and stamp taxes (the later two are included as "others" in the table) in Japan's tax revenue is small.

3. No.

4. No.

5. Approximately 12 per cent of total taxation was collected in fiscal year 1966 through taxes which are subject to border tax adjustment.

Other tax-related border adjustments and export rebate schemes

6. No tax credit. (Special deductions from taxable income are allowed for some overseas transactions such as transactions of technical services.)

7. Specified entertainment expenses related to overseas transactions are deductible from taxable income.

8. There are the following tax measures.
Special depreciation for overseas transactions

(1) The ordinary depreciation allowance may be accelerated by the amount calculated by:

\[
\frac{\text{Ordinary depreciation allowance}}{\text{Proceeds from overseas transactions in the same accounting period of the preceding year}} \times \frac{\text{Total proceeds in the same accounting period of the preceding year}}{\text{Depreciation allowance total proceeds in the same accounting period of the preceding year}}
\]

(2) The depreciation calculated by the above formula may be increased by either 30 per cent or 60 per cent under specified conditions related to performance of overseas transactions.

Overseas market development reserve

(1) An amount not exceeding specified percentages of the proceeds from overseas transactions may be set aside as non-taxable reserves for overseas market development expenses, one fifth of which is required to be restored to taxable income in each of the five succeeding years.

(2) The maximum specified percentages are 0.5 per cent, 1 per cent, 1.5 per cent according to the type of overseas transactions. These percentages may be increased by either 30 per cent or 60 per cent under specified conditions related to the performance of overseas transactions.

9. No.

10. No.

11. Some accelerated depreciation allowances and investment reserve measures are provided for investment incentives in the corporate income tax system.

12. For tax purposes business losses may be carried back one year and carried forward for five years. Such losses are deductible from income earned in those other years.

13. The gain or loss incurred from the appreciation of assets is in principle not taken account of in the computing of the taxable income.

14. (1) Foreign tax credit

Any foreign corporation tax on a domestic corporation is creditable against the Japanese corporation tax for the taxable year in which the foreign tax accrued, subject to the following limitation:

\[
\frac{\text{Japanese corporation income tax}}{\text{Total income from sources outside Japan}} = \frac{\text{Entire income subject to Japanese corporation tax}}{\text{Entire income subject to Japanese corporation tax}}
\]
(2) Deduction of losses incurred by establishments in other countries

Corporation income tax is generally levied on the entire income of a domestic corporation. Therefore their losses incurred by establishments in other countries are deductible as well as that incurred in Japan.

15. No.
16. None.
17. No.
18. None.