

# FY 2013 Taxation Reform Related to Ministry of the Environment

January 2013

## 1. Promotion of Greening the Entire Tax System

- For energy taxation, the followings have been approved.
    - Steadily implementation of “Tax for Climate Change Mitigation” which came into force in stage from last October in order to strengthen measures to reduce emissions of CO<sub>2</sub> from energy sources
    - Maintenance of “tax rate for the time being” for the other energy taxation such as gasoline tax, from the viewpoint of greening
- Further, preferential allocation of tax revenue such as gasoline tax to combat climate change mitigation including forest sink measures at national and local level was incorporated into The Outline of FY 2013 Taxation Reform by Liberal Democratic Party and New Komeito on January 24, 2013 (Hereinafter referred as to “the Outline” as follows. [0050y6ge 91 of the Outline]

### Chapter 3. Consideration

10 Climate change mitigation should be promoted from both CO<sub>2</sub> emissions control measures from energy resources as well as forest sink measures. Of these, from the viewpoint of implementing various measures to reduce emissions of CO<sub>2</sub> from energy resources, special measures of Petroleum and Coal Tax rates for climate change mitigation have been taken.

On the other hand, regarding forest sinks, it is necessary to position forests and forestry as a national strategy, which contribute significantly to land conservation and the prevention of climate change, and to promote forest management, namely, afforestation, and thinning as CO<sub>2</sub> sink measures.

Therefore, based on the provision of Article 7 of “the Act of Partial Revision of the Consumption Tax et al to make fundamental reforms of the tax system in order to ensure stable finance sources for social security”, a comprehensive study for securing of financial resources for forest sinks and climate change mitigation at local level is to be examined promptly.

➤ **For Automobile Taxation, the followings have been included into the Outline.** [Pages 6 and 7 of the Outline]

Chapter 1. Basic Idea of FY 2013 Taxation Reform

2. Steady implementation of integrated reform of social security and tax

(3) Response to the Increase in Consumption Tax

② Review of Automobile Taxation

Automobile Acquisition Tax and Automobile Weight Tax are supposed to be reviewed under the Fundamental Tax Reform Legislation from the viewpoint of simplification, reducing the burden and greening while taking into the account of local financial affairs, after reconsidering what the related taxation at national and local levels should be as well as securing a stable source of revenue.

a. For Automobile Acquisition Tax, on the premises to ensure the stable source of revenue and take appropriate measures to compensate for the impact of local government finances, while taking the opinions of local governments into account, the fundamental reform shall be conducted in the following direction and the concrete conclusions shall be reached in FY 2014 Taxation Reform.

(a) Automobile Acquisition Tax is reduced at two stages and abolished when Consumption Tax rate is 10%. At the stage when Consumption Tax rate is 8%, the greening such as of expansion of eco-car tax reduction is strengthened. Another measure for securing the financial resources needed is conducted.

(b) At the stage when Consumption Tax is 10%, taking into account the function of greening of Automobile Acquisition Tax, from the viewpoint of maintaining and strengthening further greening, as well as of ensuring a stable source of revenue, taxation in accordance with environmental performance et al shall be imposed by Automobile Tax, while improving regional self-reliance and independence. Together with stable finance resources guaranteed by the other local finance shall not be affected.

- b. Automobile Weight Tax shall be reviewed in the following way and the concrete conclusions shall be obtained in FY 2014 Taxation Reform.
- (a) Basic structure of eco-car tax reduction system shall be made permanent. At the stage when Consumption Tax is 8%, by securing the financial resource from the viewpoint of further greening et al, measures such as mitigating depending on the fuel efficiency shall be taken. From the viewpoint of maintenance and strengthening of greening function, taxation according to the environmental performance will be considered.
- (b) Automobile Weight Tax is levied according to the weight of vehicle et al and closely related to road damage and so on. As substantial resources will be needed for maintenance and updating of the road as well as promotion of disaster and risk reduction, in order to clarify its nature as sharing cost of the party who causes damages as well as beneficially pay, the revision will be done in the way that the revenue is to be positioned as the financial resources for the maintenance and update of the road and to clarify it is returned to automobile users. Also we shall take note that part of the revenue is used as the resource of pollution-related health damage compensation.

## **2. Individual Measures of Greening**

### **(1) Low-Carbon Society**

#### **【Environmental Investment】**

- **Expansion and extension of environmental-related investment promotion taxation (Green Investment Tax Reduction) – Corporate and Income Taxes [Pages 64 and 65 of the Outline]**

In case you get the facility for the promotion of the reduction in energy related environmental impact, the deadline of special depreciation or special credit of Cooperation Tax (taxation for the promotion of environment-related investment) is extended for two years after the following revisions.

- ① To add cogeneration facility (cogeneration power generating device

type) to the assets subject to immediate depreciation (measures that can be special depreciation until the purchase price by the sum of the common depreciation) and establish its application deadline by March 31, 2015.

- ② To review such as to add storage for stationery equipment in the underlying assets and to exclude the asset obtained with subsidy from the underlying assets

➤ **Establishment of special measures of tax base for cogeneration facility – Property Tax** [Page 54 of the Outline]

Tax measures for the taxable base of property tax on cogeneration facility (cogeneration power generating device type) to be five-sixth of the first three-year are taken for the next two years.

**【Energy-Saving Residential】**

➤ **Expansion of mortgage tax break – Income Tax** [Pages 23 to 25 of the Outline]

For special deduction of Income Tax in case of having a house loan, the application deadline (December 31, 2013) is extended for four years until December 31, 2017 and the following actions are taken.

- ① In case of the certified house (long-term prime residential and low-carbon housing) provided for use between 2014 and 2017, the maximum amount of outstanding at year-end (borrowing limit), deduction rate, maximum deduction for each year and maximum expense deduction during the period of deduction of housing loans (10 years) are as follows.

Years of Residence	Borrowing Limit	Deduction Rate	Maximum deduction for Each Year	Maximum Deduction
January to March 2014	JPY 30 mil	1.0%	JPY 0.3 million	JPY 3 mil
April 2014 to December 2017	JPY 50 mil	1.0%	JPY 0.5 million	JPY 5 mil

- ② The deadline (December 31, 2012) for the mitigation measures of requirements relating to applied energy saving renovation is extended for three years until December 31, 2015.

➤ **Expansion and extension of the tax cut for investment in the energy-saving home renovation – Income Tax** [Pages 26 and 27 of the Outline]

In case of specific repair works to the existing house, the deadline (December 31, 2012) of special deduction of Income Tax is extended for five years until December 31, 2017.

- When the house with energy saving renovations is provided for residential use between 2013 and 2017, maximum amount of renovation, deduction rate and maximum deduction are as follows.

Years of Residence	Maximum Amount of Renovation	Deduction Rate	Deduction Limit
January 2013 to March 2014	JPY 2 million (JPY 8 million)	10%	JPY 0.2 mil (JPY 0.3 mil)
April 2014 to December 2017	JPY 2.5 million (JPY 7.5 million)	10%	JPY 0.25 mil (JPY 0.35 mil)

Note: The amount in parenthesis is the maximum amount of repair work and deduction rate when installing photovoltaic devices in conjunction with energy-saving renovations.

➤ **Expansion and extension of the tax relief for the loan according to the energy-saving home renovation – Income Tax** [Pages 29 to 31 of the Outline]

In case of having a home loan in accordance with the specific renovation, including energy-saving renovation, special provision relating to special deduction of Income Tax deduction is extended for four years until December 31, 2017 and the following actions are taken.

- When the house with the specific renovation, including energy-saving renovations is provided for residential use between 2014 and 2017, within the maximum amount of loans outstanding at year-end (JPY 10 million), limits in accordance with the specific deduction for each year and the maximum deduction amount during the deduction period (five years) are as follows.

Years or Residence	Maximum Amount of Specific Renovation	Deduction Rate	Maximum Deduction for Each Year	Maximum Deduction
	Other Borrowing Limit	Deduction Rate		
January to March 2014	JPY 2 million	2.0%	JPY 0.4 mil	JPY 0.6 mil
	JPY 8 million	1.0%	JPY 0.8 mil	
April 2014 to December 2017	JPY 2.5 million	2.0%	JPY 0.5 mil	JPY 0.625 mil
	JPY 7.5 million	1.0%	JPY 0.75 mil	

- **Expansion of Property Tax relief in accordance with the energy-saving renovation for existing house – Property Tax** [Page 55 of the Outline]

For reduction measures of Property Tax relating to residential energy-saving refurbishment (reduction by one-third), the application deadline is extended for three years.

### **【Bio Fuels】**

- **Expansion of special measures in tax base for gasoline including bio-ethanol – Gasoline Tax and Local Gasoline Tax** [Page 80 of the Outline]

For gasoline which is produced by mixing fuels deprived from biomass, the deadline of special measures to reduce Gasoline Tax and Local Gasoline Tax corresponding to the ethanol contained in the biomass-deprived fuel is extended for five years.

### **【Car Infrastructure】**

- **Extension of special measures in tax base according to the fuel supply facilities for low-emission vehicles – Property Tax** [Page 59 of the Outline]

For the special measures of tax base (two-thirds) in Property Tax relating to fuel supply facilities for low-emission vehicles (fuel cell vehicles and natural gas vehicles), the acquisition cost of the equipment requirements for filling hydrogen for fuel cell vehicles is to be raised over JPY 150 million (JPY 20 million at present) and its deadline is extended for two years.

## **(2) Sound Material-Cycle Society**

- **Shortening of statutory useful lives of waste management facilities – Corporate and Income Taxes** [Page 77 of the Outline]

The statutory useful live of self-propelled equipment for waste management is reduced to eight years from seventeen at present.

## **(3) Society in Harmony with Nature**

- **Extension of the special tax rate in hunting in accordance with those who capture the objected wildlife - Hunting Tax** [Page 81 of the Outline]

For special measures of rates for Hunting Tax (one-half) according to the employees who capture wildlife pertaining to agriculture, forestry and fisheries stipulated by the act on special measures for special measures relating to prevention of damage caused by wildlife, the deadline is extended to three years.

#### **(4) Society with Security**

- **Simple certificate system in accordance with the installation of treatment facilities of contaminated waste – (Special provisions for taxation of capital gain) - Corporate and Income Taxes** [Pages 38 and 39 of the Outline]

Subject to the simplified certification system according to the purchase of commercial land to be expropriated, interim storage facilities and final disposable site of designated waste that are established by the government based on the act of special measures for dealing with pollution of the environment by radioactive substances emitted by the nuclear power plant accident due to the Great East Japan Earthquake occurred on March 11, 2011, are added.

#### **(5) Others**

- **Extension of special exemption of Corporate Tax in the case of research conducted – Corporate and Income Taxes** [Page 64 of the Outline]

For tax credit system in accordance with the total cost of testing and research, the upper limit of the amount of tax credit is raised to 30% (20% at present) of Corporate Tax for the period for two years as a temporary measure.

- **Extension of special measures of Automobile Weight Tax refund relating to the suffered cars – Automobile Weight Tax** [Page 80 of the Outline]

For automobiles suffered by the tsunami caused by the Great East Japan Earthquake, the deadline of special measures to refund Automobile Weight Tax which corresponds to the remaining term inspection (from March 11, 2011 to the expiring date of inspection) is extended for one year.

### **3. Matters Shelved This Time**

➤ **Establishment of the special measures of tax base according to bio-diesel fuel – Diesel Oil Delivery Tax**

The establishment of special measures to reduce the Diesel Oil Delivery Tax corresponding to the biodiesel Delivery Tax, corresponding to biodiesel fuels used in its manufacture, in case the contractor sells light oil made by mixing biodiesel fuels through authorized distributors, was regarded as a long-term study.