

Major Tax Systems Related to Transfer of Real Estate, Etc.

For global investors to select which countries or assets to invest in, various taxes related to investment are an important factor to consider along with risk and return assessment. This section explains the major tax systems related to real estate investment in Japan by providing summaries of the following 7 cases.

- (1) Sale and purchase of real estate in kind by non-SPCs under the Companies Act
- (2) Sale and purchase of beneficial interest in trust by SPCs under the Companies Act
- (3) Sale and purchase of real estate in kind by TMKs under the SPC Act (Act on Securitization of Assets)
- (4) Sale and purchase of real estate in kind by investment corporations
- (5) Sales and purchase of real estate in kind through the silent partnership scheme under the Real Estate Specified Joint Enterprise Act
- (6) Tax system for investors
 - Listed stocks / corporate bonds
 - Preferred equity securities of SPCs / investment corporations (listed)
 - Silent partnership equity in instruments of real estate specified joint enterprises (monetary contribution type)
- (7) Comparison of real estate in kind and beneficial interest in trust with regard to Tax on real estate transactions

Furthermore, while explanations of this section are based on the Real Estate Handbook 2013 published by The Association for Real Estate Securitization, updates and modifications have been made as needed in consideration of the fact that the survey date of the Handbook was April 1, 2013.

Major tax systems related to transfer of real estate, etc. are presented on the following pages.

The tax systems explained below are subject to change due to revisions of laws and regulations, etc. being made after they were established.

In addition, interpretation and application of laws and regulations in practical operations require confirmation by such experts as competent ministries and agencies, attorneys, tax accountants and accountants. It must be noted that the accuracy of the descriptions below is not guaranteed.

Major Tax Systems Related to Transfer of Real Estate, Etc.

● Sale and Purchase of Real Estate in Kind by Non-SPCs under the Companies Act ●

Stage		Event	Tax	
Stage of selling and purchasing assets	Originator (transferer of assets) level	Upon transfer	Real estate acquisition tax	—
			Registration and license tax	—
			Corporation tax	Capital gains tax
	Vehicle (transferee of assets) level	Upon acquisition	Real estate acquisition tax	Land (building lot, etc.): Assessed value of land × 1/2 (*1) × 3% (*1) Land (other than building lot): Assessed value of land × 3% (*1) Building (residential): Assessed value of building × 3% (*1) Building (non-residential): Assessed value of building × 4%
			Registration and license tax	Assessed value of land × 1.5% (*2) Assessed value of building × 2%
			Special land possession tax	Taxation suspended
Consumption tax			Levied on building	
Stage of possessing and managing assets	Possession	Fixed assets tax	Tax base of land × 1.4% Assessed value of building × 1.4%	
		City planning tax	Tax base of land × 0.3% Assessed value of building × 0.3%	
		Special land possession tax	Taxation suspended	
		Corporation tax	Tax imposed on profits	
		Overview of requirements for dividend deductible as expenses	Requirements regarding vehicle	—
	Requirements regarding fiscal year	—		

*1: Applicable through March 31, 2015

*2: Applicable through March 31, 2015

Major Tax Systems Related to Transfer of Real Estate, Etc.

● Sale and Purchase of Beneficial Interest in Trust by SPCs under the Companies Act ●

Stage		Event	Tax	
Stage of selling and purchasing assets	Originator (transferer of assets) level	Upon transfer	Real estate acquisition tax	—
			Registration and license tax	Registration and license tax on created trust: Assessed value of land × 0.3% (*2) Assessed value of building × 0.4%
			Corporation tax	Capital gains tax
	Vehicle (transferee of assets) level	Upon acquisition	Real estate acquisition tax	—
			Registration and license tax	— (No more than the expenses for registering change of beneficiary to acquire beneficial interest in trust)
			Special land possession tax	Tax exempt
Consumption tax			Levied on beneficial interest for building	
Stage of possessing and managing assets	Possession	Fixed assets tax	Tax base of land × 1.4% Assessed value of building × 1.4%	
		City planning tax	Tax base of land × 0.3% Assessed value of building × 0.3%	
		Special land possession tax	Tax exempt	
		Corporation tax	Tax imposed on profits	
		Overview of requirements for dividend deductible as expenses	Requirements regarding vehicle	—
	Requirements regarding fiscal year	—		

*Applicable through March 31, 2015

Major Tax Systems Related to Transfer of Real Estate, Etc.

● Sale and Purchase of Real Estate in Kind by TMKs under the SPC Act (Act on Securitization of Assets) ●

Stage		Event	Tax	
Stage of selling and purchasing assets	Originator (transferer of assets) level	Upon transfer	Real estate acquisition tax	—
			Registration and license tax	—
			Corporation tax	Capital gains tax
	Vehicle (transferee of assets) level	Upon acquisition	Real estate acquisition tax	Land (building lot, etc.): Assessed value of land × 2/5 (*2) × 1/2 (*1) × 3% (*1) Land (other than building lot): Assessed value of land × 2/5 (*2) × 3% (*1) Building (residential): Assessed value of building × 2/5 (*2) × 3% (*1) Building (non-residential): Assessed value of building × 2/5 (*2) × 4%
		Registration and license tax	Assessed value of land × 1.3% (*3) Assessed value of building × 1.3% (*3)	
		Special land possession tax	Taxation suspended	
		Consumption tax	Levied on building	
Stage of possessing and managing assets	Possession	Fixed assets tax	Tax base of land × 1.4% Assessed value of building × 1.4%	
		City planning tax	Tax base of land × 0.3% Assessed value of building × 0.3%	
		Special land possession tax	Taxation suspended	
		Corporation tax	Tax imposed on profits *with requirements for dividend deductible as expenses	
	Overview of requirements for dividend deductible as expenses	Requirements regarding vehicle	(1) Registered on the SPC's member list (2) Falling under either one of the items in the table below (3) The securitization plan states that more than 50% of the preferred equity and the standard specified equity are offered in Japan (*4) (4) The accounting period is one year or less	
		Requirements regarding fiscal year	(1) Adhering to the securitization plan (2) Not conducting concurrent operation of any other business type (3) Entrusting other party/parties to leave the specified assets in trust or manage and dispose the specified assets (4) Not falling under the category of the government ordinance-designated family corporations (*5) as of the end of the fiscal period excluding, however, those that issue specified company bonds through public offering by at least 100 million yen or that expect such specified company bonds to be owned only by institutional investors or TMKs with securitized specified claims (5) Over 90% of the distributable profit is paid as dividend (6) Not being an unlimited partner of a general partnership company or a limited partnership company (7) Not owning assets other than specified assets and having specific borrowings only from institutional investors or TMKs with securitized specified claims who are not specified equity investors.	

Major Tax Systems Related to Transfer of Real Estate, Etc.

●Sale and Purchase of Real Estate in Kind by TMKs under the SPC Act (Act on Securitization of Assets)●

Overview of requirements for dividend deductible as expenses Items corresponding to requirements regarding vehicle (2)	<ul style="list-style-type: none">•Issues specified company bonds through public offering of at least 100 million yen•Expects the specified company bonds to be owned only by institutional investors or TMKs with securitized specified claims•Has preferred equity undertaken by at least 50 entities•Has preferred equity undertaken only by institutional investors
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*1: Applicable through March 31, 2015

*2: Applicable through March 31, 2015

*3: Applicable through March 31, 2015; the subject real estate is under certain restrictions, such as warehouses and their sites being excluded from the real estate to be managed

*4: With regard to TMKs, the FY 2011 Tax Reform clarified that, when issuing two or more types of preferred equity, the requirement for the ratio of offering for subscription in Japan being over 50% shall be stated or recorded in the asset securitization plan for each type of preferred equity. With regard to specific purpose trusts, the FY 2011 Tax Reform clarified that, when two or more types of beneficial interest is offered for subscription, the requirement for the ratio of offering in Japan being over 50% shall be stated or recorded in the asset securitization plan for each type of beneficial interest.

*5: Of the criteria for determining family corporations, the criterion in terms of voting rights is whether voting is conducted only by preferred equity members, which is different from the relevant criteria of ordinary determination of family corporations.

Source: Prepared and updated as needed on the basis of Real Estate Handbook 2013 published by The Association for Real Estate Securitization

Major Tax Systems Related to Transfer of Real Estate, Etc.

● Sale and Purchase of Real Estate in Kind by Investment Corporations ●

Stage		Event	Tax		
Stage of selling and purchasing assets	Originator (transferor of assets) level	Upon transfer	Real estate acquisition tax	—	
			Registration and license tax	—	
			Corporation tax	Capital gains tax	
	Vehicle (transferee of assets) level	Upon acquisition	Real estate acquisition tax	Land (building lot, etc.): Assessed value of land × 2/5 (*3) × 1/2 (*1) × 3% (*1) Land (other than building lot): Assessed value of land × 2/5 (*3) × 3% (*1) Building (residential): Assessed value of building × 2/5 (*3) × 3% (*1) Building (non-residential): Assessed value of building × 2/5 (*3) × 4%	
			Registration and license tax	Assessed value of land × 1.3% (*3) Assessed value of building × 1.3% (*3)	
			Special land possession tax	Taxation suspended	
Consumption tax			Levied on building		
Stage of possessing and managing assets	Possession	Fixed assets tax	Tax base of land × 1.4% Assessed value of building × 1.4%		
		City planning tax	Tax base of land × 0.3% Assessed value of building × 0.3%		
		Special land possession tax	Taxation suspended		
		Corporation tax	Tax imposed on profits *with requirements for dividend deductible as expenses		
	Overview of requirements for dividend deductible as expenses	Requirements regarding vehicle	(1) Registered as investment corporation (2) Falls under either one of the following: • Issued investment units through public offering upon establishment totaled at least 100 million yen • Investment units issued and outstanding owned by at least 50 entities or by only institutional investors at the end of the fiscal year (3) States in the Articles of Incorporation that more than 50% of investment units are offered in Japan (*5) (4) The accounting period is one year or less		
		Requirements regarding fiscal year	(1) Adhering to Article 63 (Restriction on Capacity) of the Investment Trusts Act (2) Entrusting asset management to asset management company (3) Entrusting asset custody to asset custody company (4) Not falling under the category of family corporations at the end of the fiscal period (determined to be family corporation if there is only one unitholder group) (5) Over 90% of the distributable profit is paid as dividend (6) Not owning 50% or more of the shares or equity of another corporation (*6) (7) Having borrowings only from institutional investors		

Major Tax Systems Related to Transfer of Real Estate, Etc.

●Sale and Purchase of Real Estate in Kind by Investment Corporations●

*1: Applicable through March 31, 2015

*2: Applicable through March 31, 2015

*3: Applicable through March 31, 2015; the subject real estate is under certain restrictions, such as warehouses and their sites being excluded from the real estate to be managed

*5: The FY 2011 Tax Reform decided that the requirement for the ratio of offering for subscription in Japan being over 50% shall be stated or recorded in the Articles of Incorporation in accordance with the total number of the investment units issued (Article 39-32-3-3, the Order for Enforcement of the Act on Special Measures Concerning Taxation)

*6: Excludes certain corporations that are devoted to conduct real estate-related transactions outside Japan in place of the investment corporation

Source: Prepared and updated as needed on the basis of Real Estate Handbook 2013 published by The Association for Real Estate Securitization

Major Tax Systems Related to Transfer of Real Estate, Etc.

● Sales and Purchase of Real Estate in Kind through the Silent Partnership Scheme under the Real Estate Specified Joint Enterprise Act ●

Stage		Evet	Tax	
Stage of selling and purchasing assets	Originator (transferer of assets) level	Upon transfer	Real estate acquisition tax	—
			Registration and license tax	—
			Corporation tax	Capital gains tax
	Vehicle (transferee of assets) level	Upon acquisition	Real estate acquisition tax	Land (building lot, etc.): Assessed value of land × 1/2 (*1) × 3% (*1) Land (other than building lot): Assessed value of land × 3% (*1) Building (residential): Assessed value of building × 3% (*1) Building (non-residential): Assessed value of building × 4% When a special business operator acquires certain real estate: "Price of the real estate" × 1/2 × tax rate above (*3)
			Registration and license tax	Assessed value of land × 1.5% (*2) Assessed value of building × 2.0% When a special business operator acquires certain real estate, the following rates are applied to the asset value of land and assessed value of building, respectively (*3) Registration of preservation of ownership: 0.3% Registration of transfer of ownership: 1.3%
			Special land possession tax	Taxation suspended
Consumption tax			Levied on building	
Stage of possessing and managing assets	Possession	Fixed assets tax	Tax base of land × 1.4% Assessed value of building × 1.4%	
		City planning tax	Tax base of land × 0.3% Assessed value of building × 0.3%	
		Special land possession tax	Taxation suspended	
		Corporation tax	Silent partnership is not included in the associations without juridical personality, etc., and is tax exempt in itself	
		Overview of requirements for dividend deductible as expenses	Requirements regarding vehicle	—
Requirements regarding fiscal year	—			

*1: Applicable through March 31, 2015 *2: Applicable through March 31, 2015

*3: Special provisions are applied to certain real estate acquired by a special business operator (SPC) between December 20, 2013 and March 31, 2015 and that requires reconstruction, etc.

Source: Prepared and updated as needed on the basis of Real Estate Handbook 2013 published by The Association for Real Estate Securitization

Tax System for Investors

● Listed Stocks / Corporate Bonds ●

Attribute	Event	Listed stocks	Corporate bonds
Investor (individual)	Acquisition	Tax exempt (non-listed stocks are also tax exempt)	Tax exempt
	Possession	Dividend income: withholding tax of 20% (tax credit for dividends available) (Filing of tax return under comprehensive taxation is allowed) *1 *Non-listed stocks are subject to comprehensive taxation with withholding tax of 20%	Interest income tax Separate withholding taxation of 20% *2
	Transfer	Capital gain: separate self-assessment taxation of 20% (Filing of tax return can be omitted if specified account is used) *Non-listed stocks are subject to separate self-assessment taxation of 20% *1	Tax exempt
Investor (corporation)	Acquisition	Tax exempt	Tax exempt
	Possession	Corporation tax (exclusion from gross profits admitted)	Corporation tax *2
	Transfer	Corporation tax	Corporation tax

● Preferred Equity Securities of SPCs / Investment Corporations (Listed) ●

Attribute	Event	Preferred equity securities of SPCs	Investment corporations (listed)
Investor (individual)	Acquisition	Tax exempt	Tax exempt
	Possession	Dividend income: Comprehensive taxation (withholding tax of 20%) (tax credit for dividends not available)	Dividend income: withholding tax of 20% (tax credit for dividends not available) (Filing of tax return under comprehensive taxation is allowed) *1
	Transfer	Capital gain: Separate self-assessment taxation of 20%	Capital gain: separate self-assessment taxation of 20% (Filing of tax return can be omitted if specified account is used) *1
Investor (corporation)	Acquisition	Tax exempt	Tax exempt
	Possession	Corporation tax (exclusion from gross profits admitted)	Corporation tax (exclusion from gross profits admitted)
	Transfer	Corporation tax	Corporation tax

● Silent Partnership Equity in Instruments of Real Estate Specified Joint Enterprises (Monetary Contribution Type) ●

Attribute	Event	Silent partnership equity in instruments of real estate specified joint enterprises (monetary contribution type)
Investor (individual)	Acquisition	Tax exempt
	Possession	Real estate income or miscellaneous income
	Transfer	Capital gain
Investor (corporation)	Acquisition	Tax exempt
	Possession	Corporation tax (exclusion from gross profits admitted)
	Transfer	Corporation tax

*1: Tax exemption system for dividend income and capital gain, etc. from small amounts of listed stocks in a tax-exempt accounts (NISA) is applicable. In order to apply for tax exemption, the method for allocation in proportion to the number of shares held must be selected for receiving dividends and other distributions.

*2: There are special provisions for taxation on foreign-issued company bonds, etc., special provisions for taxation on the interest, etc. of book-entry transfer national government bonds, etc., and the tax exemption system on the interest, etc. of book-entry company bonds, etc.

*Along with the income tax to be withheld, special income tax for reconstruction equivalent to 2.1% of the income tax amount is separately withheld from January 1, 2013 to December 31, 2037.

Source: Prepared and updated as needed on the basis of Real Estate Handbook 2013 published by The Association for Real Estate Securitization

Comparison of Real Estate in Kind and Beneficial Interest in Trust with Regard to Tax on Real Estate Transactions

	Real estate in kind	Real estate beneficial interest in trust
Real estate acquisition tax	<p>Land (building lot, etc.) = Assessed value of land \times 1/2 \times 3% (Both the 3% and the special treatment of 1/2 are applicable through March 31, 2015, in contrast to the principle rate of 4%) Land (other than building lot, etc.) = Assessed value of land \times 3% [Article 11-2-1 and Article 11-5-1 of the Supplementary Provisions of the Local Tax Act] Building (residential) = Assessed value of building \times 3% (Applicable through March 31, 2015, in contrast to the principle rate of 4%) [Article 11-2-1 of the Supplementary Provisions of the Local Tax Act]</p>	Tax exempt [Article 73-7 of the Local Tax Act]
Special land possession tax (acquisition)	Being suspended (for the time being)	Tax exempt
Registration and license tax	<p>【Registration of transfer of ownership】 Registration of transfer of ownership in land (only due to sale and purchase) = Tax base \times 1.5% (Applicable through March 31, 2015, in contrast to the principle rate of 2%) [Article 72-1-1 of the Act on Special Measures Concerning Taxation]</p> <p>Registration of transfer of ownership in building = Assessed value of building \times 2%</p>	<p>【Registration of transfer of ownership】 Registration of transfer of ownership through entrustment Tax exempt [Article 7 of the Registration and license tax Act]</p> <hr style="border-top: 1px dashed black;"/> <p>【Registration of trust of ownership】 Registration of trust of ownership in land = Assessed value of land \times 0.3% (Applicable through March 31, 2015, in contrast to the principle rate of 0.4%) [Article 72-1-2 of the Act on Special Measures Concerning Taxation]</p> <p>Registration of trust of ownership in building = Assessed value of building \times 0.4% [No. 1 (10) a. of the Supplementary Provisions 1 of the Registration and License Tax Act]</p> <p>Change of name of beneficiary: 1,000 yen per a piece of real estate (a lot of land and a building) [No. 1 (14) of the Supplementary Provisions 1 of the Registration and License Tax Act]</p> <p>*Transfer of trust property from the trustee of trust (in which the trustor has been the sole beneficiary of the principal of the trust property since the trust came into effect) to the beneficiary (limited to the party who has been the trustor since the trust came into effect): tax exempt</p> <p>Registration of trust of rights other than ownership of real estate (pledges, mortgages and others in trust) = Assessed value \times 0.2% [No. 1 (19) b. and c. of the Supplementary Provisions 1 of the Registration and License Tax Act]</p>
Stamp tax	Tax levied in accordance with the amount described in the sales agreement	<p>Trust agreement : 200 yen per agreement [No. 12 of the Supplementary Provisions 1 of the Stamp Tax Act]</p> <p>Beneficial interest transfer agreement: 200 yen [No. 12 or No. 15 of the Supplementary Provisions 1 of the Stamp Tax Act]</p>

Source: Prepared and updated as needed on the basis of Real Estate Handbook 2013 published by The Association for Real Estate Securitization