EU - Japan Business Round Table
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Recommendations of the EU-Japan Business Round Table to the Leaders of the European Union and Japan

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Working Party D
Financial Services, Accounting and Tax Issues

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List of Abbreviations

Abbreviation	Meaning
FSB	Financial Stability Board
CFTC	US Commodity Future Trading Commission
BCBS	Basel Committee on Banking Supervision
IOSCO	International Organization of Securities Commission
BEPS	Base erosion and profit shifting
APA	Advance Pricing Agreement
FTT	Financial Transaction Tax

Introduction

Japan and the EU are still facing the challenges of recovery and the need to restore sustainable growth. The leaders of the G20 have agreed to implement regulatory reforms to promote integrity, stability and transparency in the financial sector and such global efforts for the reform implementation are being monitored closely by the Financial Stability Board (FSB) to ensure international consistency. The proposed regulations and prudential measures are expected to prevent the recurrence of systemic crisis, increase accountability and ultimately contribute to economic recovery through support given to real economic activities by a healthy financial sector.

It is essential that governments and global supervisory bodies take a coordinated approach to the introduction and implementation of regulations or measures, to identify their full and cumulative implications on markets which have different circumstances and practices, and to ensure consistency and efficiency. This is also applicable beyond financial regulations, to tax measures for example, as the common objective is to preserve efficient resource allocation for companies operating globally as well as level playing fields for all participants. Japan and the EU should unite their efforts to steer through this challenging time and achieve recovery most effectively.

The above is reflected in our selection of Recommendations for this Working Party D document.

Recommendations from both

European and Japanese industries

WP-D / # 01 / EJ to EJ** **<u>Recommendation regarding Financial Reform and Regulation</u>**

The BRT requests that regulating bodies fully address the impact of reforms and new regulations on the real economy notably in the implementation phase and take a co-ordinated approach to avoid negative effects on global business activities and efficient allocation of resources.

<Recent Progress>
In July 2013, the European Commission and the US Commodity Futures Trading Commission (CFTC) announced a Path Forward regarding their joint understandings on a package of measures for how to approach cross-border derivatives. As stated there, there will be considerable co-ordination challenges to avoid cross-border conflicts, inconsistencies and duplication.
The final report on margin requirement for non-centrally cleared derivatives was issued by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) in September 2013, which includes a threshold of €50 million for initial margin to minimise impact on corporate business activities.

<Background>
Financial reform and introduction of additional regulations are underway to achieve a more resilient financial system but they should be designed to be appropriate and effective so as to enable financial markets and financial industry support sustainably economic activities and the revitalisation of global economy.
The European and Japanese authorities as well as market participants including banks and business corporations should continue to unite efforts to ensure effective influence on US financial regulations which have international reach, particularly cross-border OTC derivatives market reforms, to avoid decrease in liquidity and increase in hedging cost.

WP-D / # 02 / EJ to EJ** **Recommendation on BEPS Action Plan**

The BRT recommends that, as to the BEPS (base erosion and profit shifting) Action Plan, the authorities should carefully consider the risks of excessive disclosure requirements and anti-tax avoidance measures so as not to hamper multinational enterprises' business activities.

<Background>
The BEPS Action Plan was proposed by the OECD and endorsed by G20 Finance Ministers and Central Bank Governors in July 2013. The BRT supports the idea of modernising international taxation rules that would include non-OECD countries to cope with the globalisation and digitalisation of economy. However, the BRT is concerned that the requirement of BEPS Action Plan for multinational enterprises to disclose information on their global allocation of income, economic activity and country-by-country taxes paid to all relevant governments would risk leading to an increase of administrative burden on enterprises and of a risk of double taxation. The BRT recommends that the introduction of excessive disclosure and anti-tax avoidance rules should be avoided so that legitimate business activities would not be hampered.

WP-D / # 03* / EJ to EJ **Recommendation on Tax Issues**

- The BRT requests that the EU Member States and Japan should modernise the tax treaties between them and ensure that, to the greatest extent possible, dividend, royalty and interest payments are exempted from withholdings taxes and that they provide for corresponding adjustments and arbitration in case of transfer pricing taxation.
- The BRT requests the harmonisation and simplification of documentary requirements in transfer pricing taxation and the facilitation of the conclusion of bilateral and multilateral APAs (Advance Pricing Arrangements).
- The BRT recommends the introduction of participation exemption that will exempt dividends and capital gains received from business investment from further corporate taxation.

<Recent progress>
Some progress has been seen for the recommendation on the modernisation of tax treaties. No progress has been seen on transfer pricing and participation exemption.

<Background>
In order to enhance direct investment between the EU and Japan, the removal of double taxation and the reduction of compliance costs associated with the transfer pricing taxation including the conclusion of APAs are essential.
Participation exemption, by which dividends and capital gains received from business investment are exempted from further corporate taxation to reward for taking risks associated with foreign investment, will further encourage direct investment.

WP-D / # 04 / EJ to E** **<u>Recommendation on Financial Transaction Tax</u>**

The BRT maintains its serious concern over the EC's proposed financial transaction tax (FTT), particularly with respect to its wider application and extraterritorial impact. For instance, as the proposed Directive introduces both a residency and issuance test for such unilateral taxation, it risks causing costly double or multiple taxation. If imposed, the FTT will result in reduced volume of financial transactions and decreased liquidity, significantly increase funding costs and impair legitimate hedging activities by parties such as business corporations. The decreased liquidity in secondary markets is also likely to cause impacts on primary markets eventually.

< Recent Progress >
No agreement has been found.

< Background >
The EC announced proposals in September 2011 to impose a Financial Transaction Tax on financial instruments between financial institutions when at least one party to the transaction is located in the EU but it has concluded since that a common FTT system could not be attained within a reasonable amount of time by the EU as a whole. On 14 February 2013, the EC has adopted a proposal for a Council Directive implementing enhanced cooperation between 11 Member States in the area of financial transaction tax.

WP-D / # 05 / EJ to J** **<u>Recommendation on Japanese Fiscal Soundness</u>**
The BRT requests that Japanese Government shall devise a detailed roadmap towards its goal of primary-balance surplus by fiscal 2020.

<Background>
Fiscal soundness is a fundamental issue for regaining trust in the Japanese economy. Primary-balance deficit risks leading to jump in interest rate and abrupt retrenchment in budget, and resulting in serious impact to the Japanese economy. Reforms of Japan's social security and taxation systems are key for both economic growth and the realisation of fiscal soundness.

WP-D / # 06* / EJ to J **<u>Recommendation on Japanese Tax system</u>**

Attracting and encouraging foreign direct investment to Japan would induce Japanese economic growth with jobs and technological innovation by inviting prominent technologies and individuals. Reduction of effective corporate tax rate and abolition or reduction of fixed asset tax on depreciable assets are necessary measures for providing a globally competitive business environment.

<Background>
While Japanese society is aging rapidly, there is expectation that in addition to revitalisation of Japanese corporates foreign direct investment to Japan will contribute to Japanese economic growth. So as to encourage foreign direct investment to Japan as one of the attractive markets in Asia, a globally competitive corporate tax system should be adopted.