

Outline of Tax Exemption Scheme for Interest, etc. on Japan Local Government Bonds and JFM, etc. bonds

By satisfying the requirement to file the written applications for tax exemption, etc. foreign investors (non-residents, foreign corporations, etc.) receiving interest, etc. (※1) from the following, shall be exempt from Withholding Tax and Corporate Tax.

① Interest, etc. on JLGBs in book-entry form

② Interest, etc. on JFM bonds, etc. (※2) in book-entry form issued on or before March 31, 2013.

(※1) Includes the difference compared to profit from redemption (i.e. the amount received as a result of redemption (including retirement by purchase) and acquisition cost).

(※2) Includes bonds issued by Japan Finance Organization for Municipal Enterprises and Japan Finance Corporation for Municipal Enterprises.

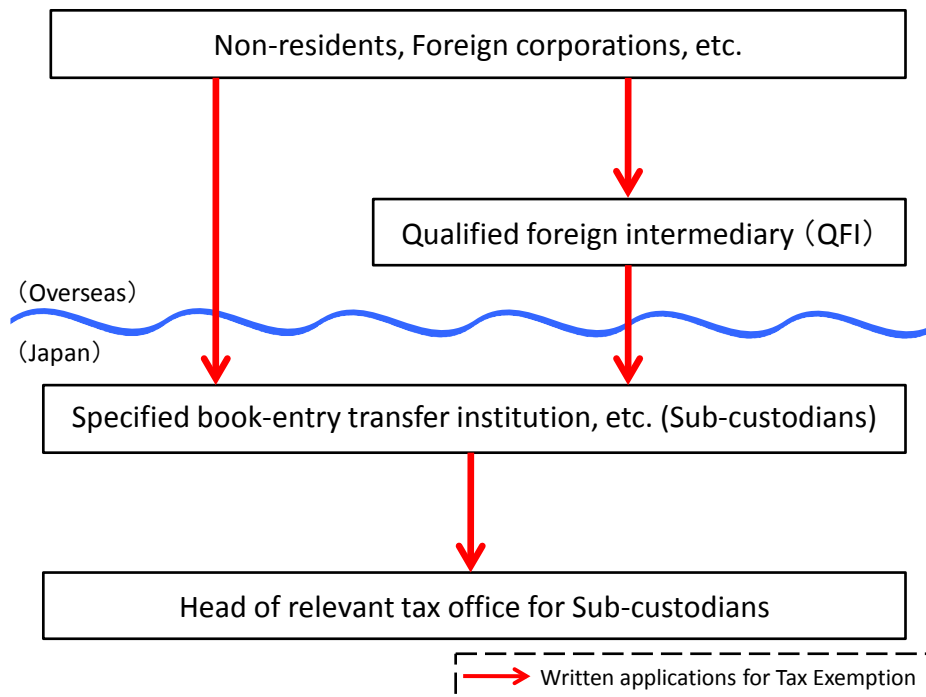
■ Outline History

○ In the 2007 Tax Reform, tax exemption scheme for interest on JLGBs in book-entry form received by non-residents, etc. was established, and has been effective since January, 2008.

○ In the 2010 Tax Reform, the procedure for tax exemption for interest on JLGBs in book-entry form received by non-residents, etc. shall be simplified and the scope of non-taxable entities shall be widened.

Also, tax exemption scheme for interest on JFM bonds, etc. in book-entry form received by non-residents, etc. shall be established.

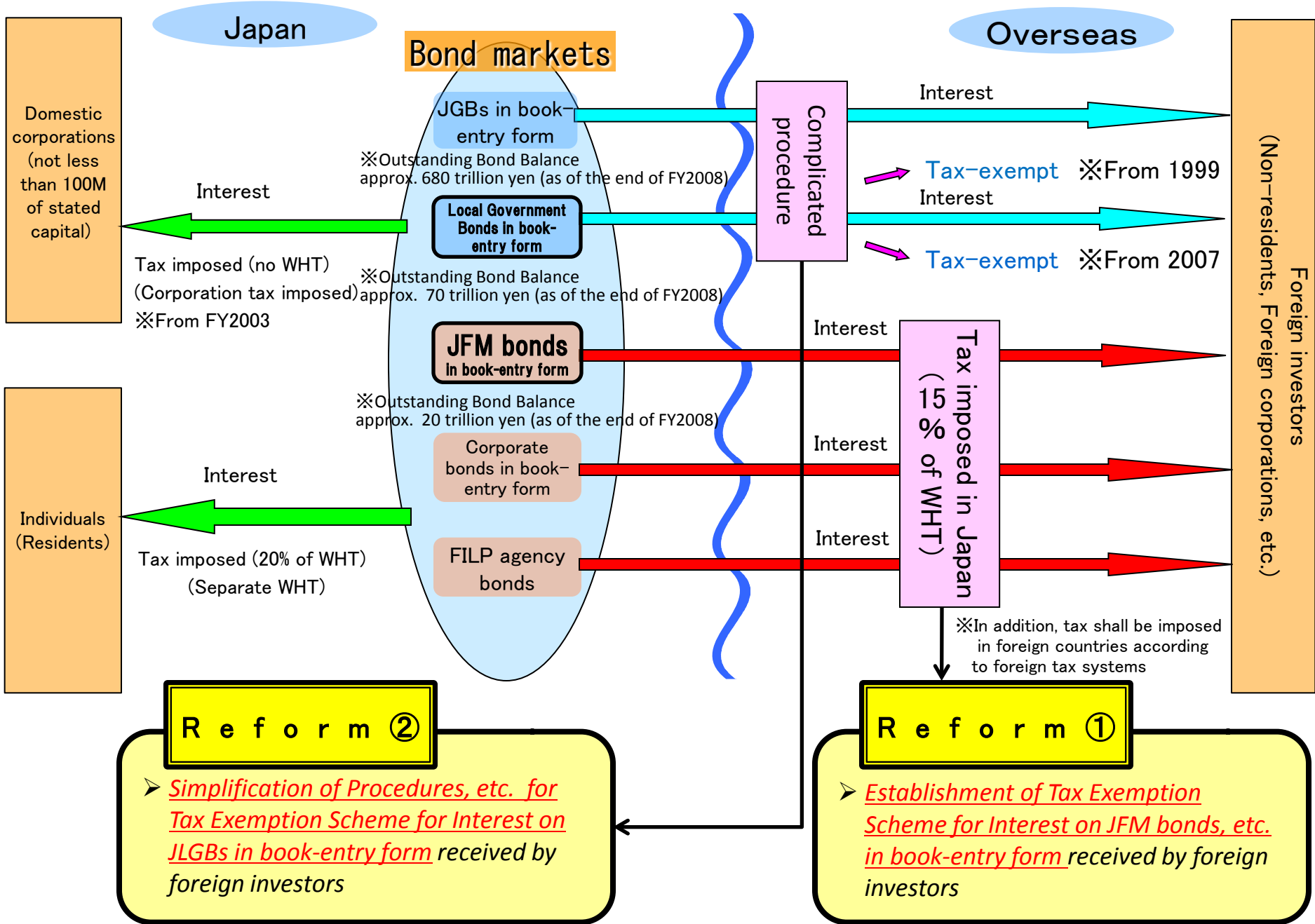
■ Outline of necessary procedures, etc.



Outline of the 2010 Tax Reform

According to the 2010 Tax Reform, the following reforms shall be made.

- ① Tax exemption scheme for interest on JFM bonds, etc. (※1) in book-entry form received by foreign investors (non-residents, foreign corporations, etc.) shall be established.
 - ② The procedure for tax exemption for interest on JLGBs in book-entry form received by foreign investors (non-residents, foreign corporations, etc.) shall be simplified and the scope of non-taxable entities shall be widened.(※2)
 - ③ These tax exemption rules shall apply to interest, etc. on JLGBs, etc. in book-entry form whose coupon calculation period starts on or after June 1, 2010.
- (※1) Includes bonds issued by Japan Finance Organization for Municipal Enterprises and Japan Finance Corporation for Municipal Enterprises.
- (※2) Tax exemption scheme for Interest on JLGBs in book-entry form received by foreign investors (non-residents, foreign corporations, etc.) has been effective since January, 2008.



Outline of Simplification of the Procedure for Tax Exemption (Related information for Reform②)

The procedure for tax exemption shall be simplified for foreign investors (non-residents, foreign corporations, etc.) as follows.

①Written applications for tax exemption

Foreign investors (non-residents, foreign corporations, etc.) shall file written applications for tax exemption to the head of the local tax authority for the relevant sub-custodian, not to the head of the local tax authority for each issuer of bonds to which the tax exemption scheme is expected to apply.

(Note) Statements of the holding period, which were required to be prepared in order for foreign investors (non-residents, foreign corporations, etc.) to get the benefits of the tax exemption scheme, shall be abolished if certain procedural requirements are satisfied.

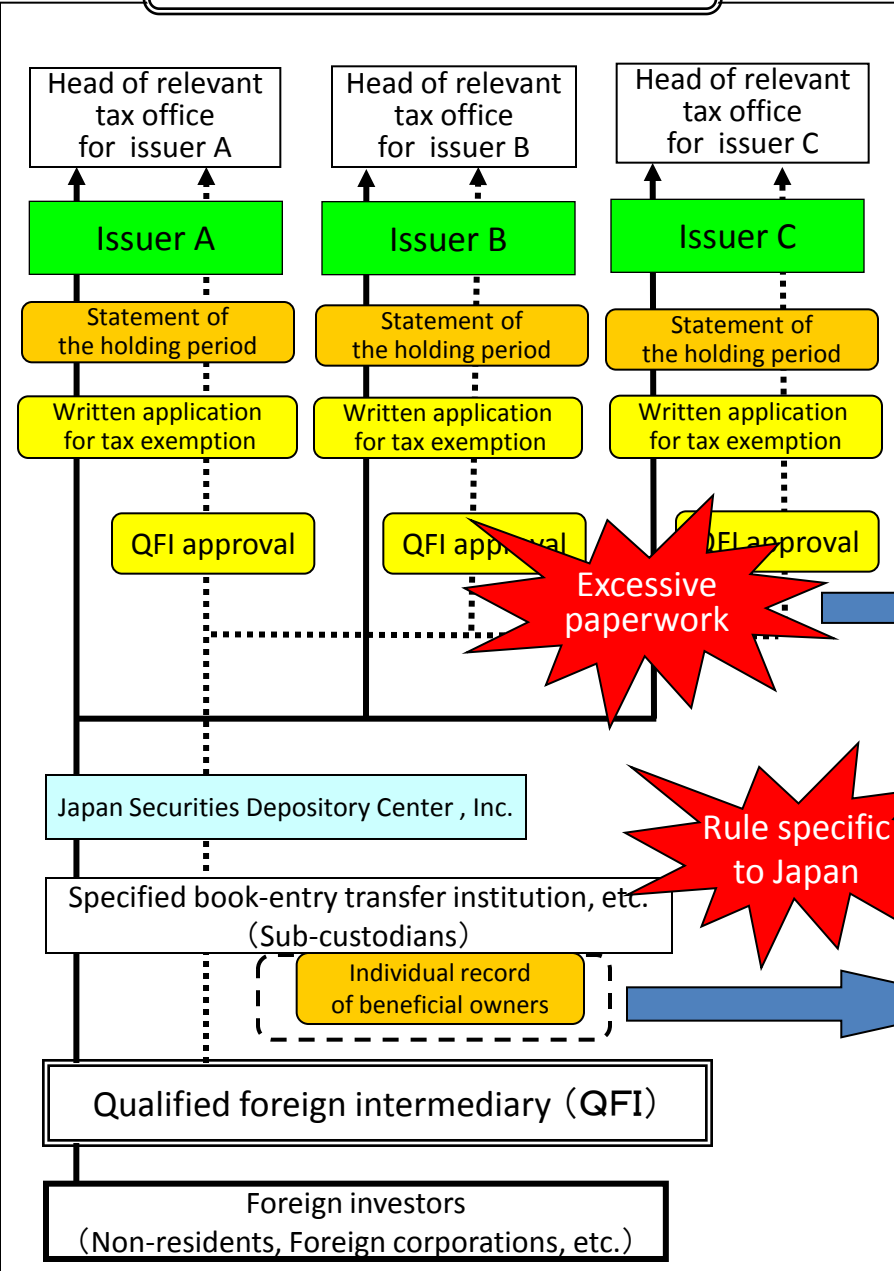
②Written application form for Qualified foreign intermediary (QFIs)

Foreign indirect account management institutions and foreign further indirect account management institutions (FIAMIs) shall file written application form for QFIs to the Commissioner of the National Tax Agency, not to the head of the local tax authority for each issuer of bonds in connection with which such FIAMIs are expected to be QFIs.

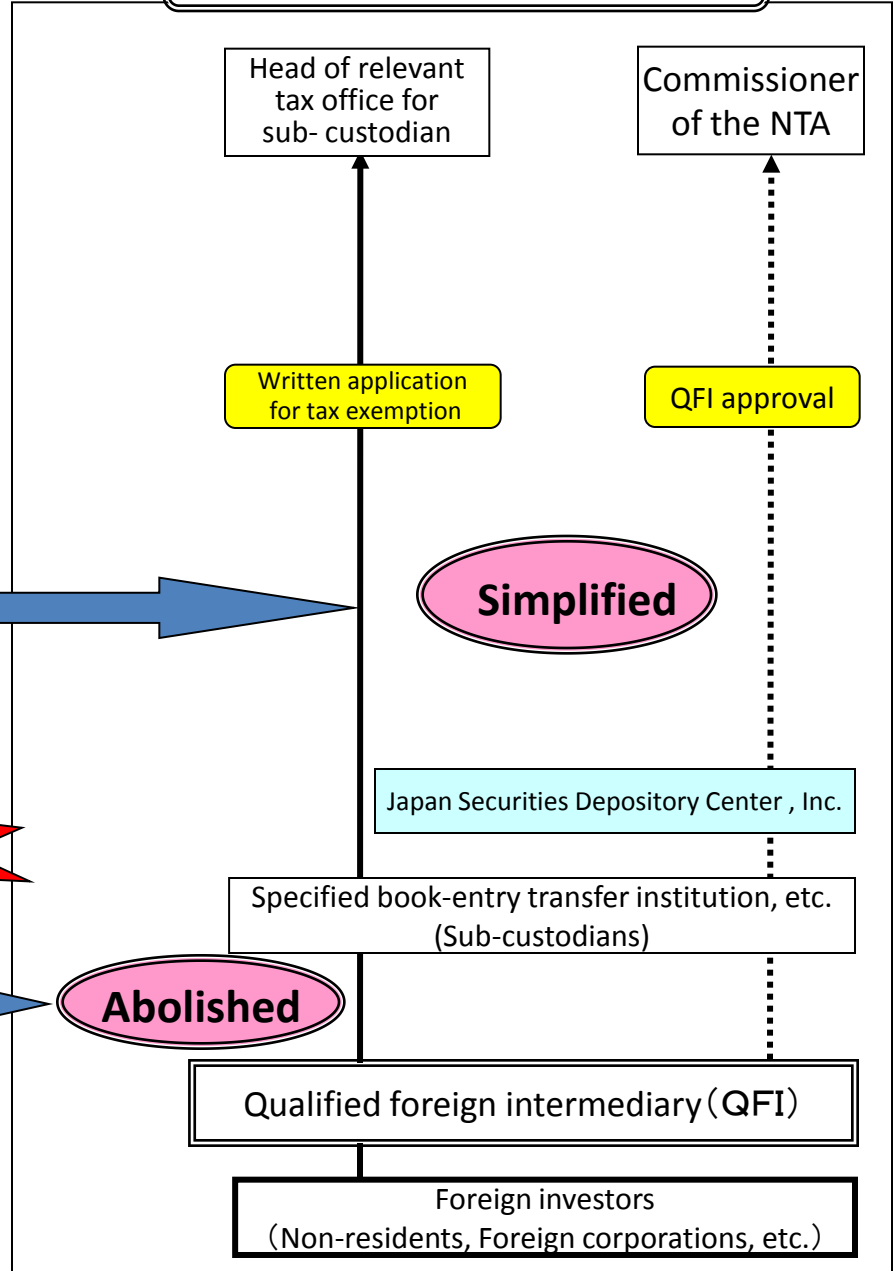
③Individual records of beneficial owners

Individual records of beneficial owners, which are currently prepared by Specified book-entry transfer institution, etc. shall be abolished if Tax-Exempt Category Accounts are opened and certain procedural requirements are satisfied.

Complicated current system



Simplified new system



(Source) May, 2010 FSA partly revised