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Japan Proposes to Expand the scope of Inheritance Tax

Attorney Alberto J. Salazar

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The Ministry of Finance and the LDP are proposing to broaden the scope of the inheritance tax on the overseas assets of all Japanese nationals, or at least of those living outside Japan for fewer than 10 years. The government also wants to narrow the scope of inheritance tax to foreigners' estate assets in Japan for foreigners who die while working in Japan, except for foreigners who have permanent resident status or have resided in Japan for five or more years.

Presently, the Japanese gift and inheritance tax applies as follows: Japan Situs Property.

Tax applies regardless of the residency/nationality of the transferor or transferee.

Japan Residents. Tax applies to individuals domiciled in Japan who receive property located anywhere in the world by gift or inheritance.

Japan nationals not residents in Japan ("5-Year Rule"). You continue to be subject to tax on non-Japan property received by gift or inheritance: (1) for 5 years after leaving Japan; or (2) indefinitely if received from a transferor, whether or not a Japanese national, who had a domicile in Japan within 5 years before the gift or death.

In other words, the overseas estate is not taxed if the deceased individual and the heirs had been residing overseas for more than five years. Many individuals have moved their assets to Singapore or other low tax jurisdictions and reside abroad for more than five years to avoid the tax.

The Ministry of Finance and the LDP's tax policy commission are striving to include

the changes for the fiscal 2017 tax code revisions.