

Client Alert

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In this Issue

The new Japan-Switzerland tax treaty will reduce treaty tax rates on dividends, interest and royalties.

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Japan and Switzerland Agree to Revise Tax Treaty

The Government of Japan recently released a statement that it had reached a basic agreement with the Government of Swiss Confederation to partly reform the current tax treaty between the two nations. Revisions to the existing treaty will include reductions in the rate of withholding tax permitted on payments of dividends, interest and royalties, and reinforced information exchange provisions.

The current tax treaty came into effect on December 26, 1971. The new treaty will become effective after necessary steps have been taken in both nations for signing and ratification.

The full text of the statement can be found (in Japanese) at:

<http://www.mof.go.jp/jouhou/syuzei/sy210626sw.htm>

Reductions in Treaty Withholding Tax Rates for Dividends, Interest and Royalties

The Japanese government statement reports that certain treaty withholding rates will be reduced as follows:

Dividends

Under the current treaty, shareholders directly owning 25% or more of the voting rights are taxed on dividends at the rate of 10%, and other shareholders are taxed at the rate of 15%, respectively. The new treaty will exempt shareholders owning 50% or greater interest, and apply a 5% tax rate

to shareholders owing 10% or more and a 10% tax rate to other shareholders, respectively.¹

Current Rates	New Rates
10% (25% shareholders)	<u>Exempt</u> (<u>50%</u> shareholders)
15% (others)	<u>5%</u> (<u>10%</u> shareholders)
	<u>10%</u> (others)

Interest

Under the current treaty, interest is subject to 10% withholding tax, with the exception of a 0% tax rate on interest arising from debt claims guaranteed or insured by government entities. The new treaty will expand the scope of the exemption to include interest received by banks.

Current Rates	New Rates
Exempt (governments)	Exempt (governments and <u>banks</u>)
10% (others)	10% (others)

Royalties

The new treaty will cut the royalty tax rates to zero from 10%.

Current Rate	New Rate
10%	Exempt

¹ We suspect that the ownership requirement under the new tax treaty will count not only direct ownership but also indirect ownership, as in the case of recent tax treaties such as the Japan-US tax treaty, but the Ministry of Finance declined to confirm on this point.