Statement of American Chamber of Commerce in Japan Regarding Japan's Net Operating Loss Carry-Forward Period

February 12, 2014

The incentive for and capacity of companies to make long-term investments in growth and innovation is enhanced by a net operating loss (NOL) carry-forward period that is sufficiently long to apply to new business lines and innovative projects that often take many years to become profitable. The American Chamber of Commerce in Japan (ACCJ) thus believes that extension of the NOL carry-forward period by Japan would stimulate both domestic innovation, and foreign direct investment into growth industries, benefiting the overall Japanese economy. We have thus recommended that the Government of Japan lengthen the NOL carry-forward period from the nine years under current Japanese law to at least twenty years, in line with the U.S. and Canadian practice, and ideally to an indefinite period, as prevails in Europe. (See chart)

Country	UK	Germany	France	Italy
C/F	Indefinite	Indefinite	Indefinite	Indefinite

Country	Singapore	Hong Kong	Canada	US	Japan
C/F	Indefinite	Indefinite	20 yrs	20 yrs	9 yrs

As shown, Japan is already an outlier among its trading partners in the Organisation for Economic Co-operation and Development (OECD) with its short carry-forward period. Lengthening the period would not only bring Japan in line with its major trading partners, but would *strengthen* incentives for investment in new industries and innovative and start-up companies, *accelerate* the growth and jobs connected with such investment, and *facilitate* foreign direct investment (FDI). Moreover, lengthening the NOL carry-forward period would have largely *back-ended* fiscal costs compared to other forms of tax stimulus, whereas the investment incentives would be front-ended.

In this context, ACCJ is very disappointed by media reports that the Government and ruling party tax commissions are rather considering shortening further the carry-forward period that is already an outlier among those of other developed economies. Such a move would only exacerbate the disincentives to investment in growth industries, and to FDI, and thus run entirely counter to the goals of Prime Minister Abe's growth strategy.

ACCJ respectfully requests that the Government not move forward in the direction suggested by these reports, and instead consult with all business stakeholders, including the foreign business community in Japan, to assess alternative ways to generate tax revenues that will not have such a potentially material negative effect on FDI and new investments in innovative industries.

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