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This note is submitted FOR INFORMATION to the Informal Study Group under item II b) of the Agenda of their meeting to be held on 10 October 2000.
JAPANESE COMMENT ON DEFINITION OF INTEREST, BENEFICIAL OWNERSHIP

A. Definition of interest

Issues relating to the definition of interest

We have the definition of “Interest Income” instead of “Interest” in the Japanese taxation laws. Interest on deposits, bonds and distribution of particular trusts are only listed in the category of “interest income”. Therefore, other items of income, which could not be regarded suitable for withholding tax, are excluded from the “interest income” under Japanese tax laws even if those items have similar character to interest in general.

Income from innovative financial instruments is not categorized as “interest income” since it would not be able to be withheld generally. It is taxable as other categories of income, for instance, business income, capital gains or miscellaneous income depending on the character of relevant transaction.

B. Verification of beneficial ownership

Information report

In order to make sure beneficial ownership and to ensure fairness and appropriate taxation under the circumstances of increasing diversity and complication of transactions, Japan has introduced the information reporting system. Financial institutions, which make cross border remittance, are required to submit relevant information to tax authorities. There is a similar system for the payment of interest, dividend, etc.

This system is important to guarantee appropriate taxation because we can timely gather certain level of information. Japanese tax authority has been considering improving this system, though, there is opposition from market people.

Beneficial Owner Verification requirement for Special Taxation Measures

In addition to the general information report system, some special taxation measures have their own verification requirement. For example, under the exemption measure for non-resident who holds Japanese Government Bond (JGB), he may be exempted from interest on JGB, provided that his JGB is registered under the “Book Entry System”, which is a clearing system that bond transactions are cleared only on the account at the Bank of Japan, and is required to submit his name and address to tax authorities through financial institution. Exemption benefit is never being provided to bearer bond.