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Are Tax System Standards for SMEs Appropriate?

Consideration of capital as a standard for measurement of company size

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Summary

- There has been an increase in the number of large enterprises that have reduced their capital to become small and medium-sized enterprises (SMEs) under the tax system. Amid the worsening of corporate performance due to the recent spread of COVID-19 infections, it is thought that the goal is to reduce the tax burden by becoming an SME under the tax system.
- SMEs under the tax system receive reductions in tax burden: (1) they are not subject to the pro forma standard taxation under the corporate business tax, and (2) they are subject to a variety of tax measures for SMEs (such as a reduction in the corporate tax rate).
- In the past, there were various regulations, and capital had a certain meaning as an indicator of the size of an enterprise. However, it is also possible to arbitrarily change the amount of stated capital by reducing capital. As a result, capital is not necessarily an appropriate indicator of an enterprise's size at present.
- Consideration of appropriate standards for measuring corporate size under the tax system is needed, including the use of indicators such as number of employees.

Attention

This report is a summary translation. The official document is only in Japanese.