

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## SUBSIDIES

### Notifications Pursuant to Article XVI:1

#### JAPAN

In view of improving transparency with regard to the use of aids, Japan submits herewith the following notification of the Small and Medium Enterprises Special Loan Measure and Reinstatement of Refunds on Loss Carryback to Corporate Income Tax for Small and Medium Enterprises.

These are internal aids used for the promotion of social and economic policy objectives as referred to in Article 11 of the Subsidies Code.

It is the view of the Japanese Government that these measures do not constitute subsidies stipulated in Article XVI:1 of GATT.

I. Small and Medium Enterprises Special Loan Measure

1. Background and Extent of Measure

(1) Background

A number of small and medium enterprises, seriously hurt by the yen's appreciation by over 30% against the U.S. dollar (based on the IMF formula) in just five months since the end of last September, are facing business crises such as bankruptcies or lay-offs. The Small and Medium Enterprises Special Loan Measure (referred to as the "Loan Measure" hereafter) is a domestic measure, emergent and temporary in nature; it is premised on the recent appreciation of the yen and is meant to address the problems of small and medium enterprises thrown into financial crisis by such changes, on the understanding that the situation has become so severe that it cannot be left as it is. It is hoped that the Loan Measure will facilitate the positive adjustment of Japanese industries such as business conversion and the switching of their sales focus from overseas to the domestic market.

(2) Incidence

The following is a general outline of loan conditions and other aspects of the financing system.

1) Use of funds

(a) Operating funds

operating funds to be used with a view to facilitating business adjustment such as

business conversion and shift to domestic market  
while avoiding temporary business crises

(b) Equipment funds

equipment funds for business conversion  
(available only for the production of goods and  
services for domestic demands)

2) Scale of financing

300 billion yen

3) Interest rates

operating funds 5.5% per annum

(6.2% per annum after the fourth year)

equipment funds 5.5% per annum

(6.2% per annum after the fourth year,

6.3% per annum after the eighth year)

4) Repayment period and grace period

	repayment period	grace period
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operating funds	within 5 years	within 1 year
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(in special cases within 6 years within 3 years)

equipment funds	within 15 years	within 2 years
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5) Maximum loan to each client

operating funds 60 million yen

equipment funds 250 million yen

6) Lending institutions

The Small Business Finance Corporation, The People's Finance Corporation, The Shoko Chukin Bank, The Okinawa Development Finance Corporation

(note) These institutions follow normal banking practices such as obtaining collateral security.

7) Period

December 2, 1985 -- March 31, 1987

8) Requisite conditions for applicant companies

Applicants must be companies which are being adversely affected by the sudden appreciation of the yen and so recognized according to the provisions of the Temporary Law on Business Conversion and Adjustment Measures for Small and Medium Enterprises. Specifically, they must be companies which belong to particular industries being hard hit and which are also showing or are expected to show production or sales below a certain level.

(3) Budget for lowered interest on loans by financial institutions

A subsidy for financial institutions to cover the interest differences, ¥1.1 billion, will be spent out of the general account for FY 1986.

(note) Funds for this Loan mainly come from the Fiscal Loan and Investment Program of the Japanese Government of which sources are from postal savings and others, and, as such, must be repaid.

## 2. Effects of the Measure

- (1) The equipment funds provided by this financing system are used for equipment necessary to carry out business conversion. Operating funds are used with a view to facilitating business adjustment such as business conversion and shift to the domestic market while avoiding bankruptcies which might be caused by suspension of new orders as a consequence of sudden large-scale fluctuations in the exchange market. This measure is intended to promote social and economic policy objectives as referred to in Article 11: 1 of the Subsidies Code.
- (2) This Loan is extremely limited in terms of the scale of financing, the maximum loan to each client, the loan conditions attached and the limited duration of the program. It will neither increase exports nor decrease imports, nor will it be so intended.

## II. The Reinstatement of Refunds on Loss Carryback

### 1. Background and Extent of Measure

#### (1) Background

See "Small and Medium Enterprises Special Loan Measure"

#### (2) Incidence

- 1) Both "The System of Refunds on Loss Carryback" and "The System of Loss Carryforward" are prevalent in tax system. These are established in order to average out tax burden on income of

juridical person which fluctuate with economic changes. Similar systems also exist in other industrialized countries.

- 2) "The Refunds on Loss Carryback" in Japan is described in Article 81 of the Corporate Income Tax Law, but the measure has been suspended temporarily since FY 1984 through FY 1987 because of the Japanese Government's huge budget deficits in accordance with Article 66 - 15 of the Special Law on Taxation. The measure is, however, operative for certain cases such as a dissolution.
- 3) Since the income of small and medium enterprises would fluctuate critically due to the sharp, large-scale appreciation of the yen, the Japanese Government decided to reinstate "Refunds on Loss Carryback" to the small and medium enterprises recognized according to the provisions of the Temporary Law on Business Conversion and Adjustment Measures for Small and Medium Enterprises only in FY 1986 and FY 1987 in accordance with Article 81 of the Corporate Income Tax Law.

## 2. Effects of the Program

As seen in the above, similar programs are implemented in other industrialized countries as well

for reasons particular to taxation, and it will neither increase exports nor decrease imports, nor will it be so intended.

### III. Other Items

Other measures based on the Temporary Law on Business Conversion and Adjustment Measures for Small and Medium Enterprises include special treatment in regard to the Small and Medium Enterprises Credit Insurance Law and rescheduling of loans used for equipment modernization. These measures have the same background as the Loan Measure and the tax system mentioned above, and, as such, will neither increase exports nor decrease imports.